AN EMPIRICAL ANALYSIS OF EXPORT PROMOTION IN PAKISTAN, 1959-77

by

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I declare that the work in this thesis has been composed by myself.

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ABSTRACT

The present study provides an empirical analysis of export promotion in Pakistan over the period 1959-60 to 1976-77, developing and extending the methods used for other countries by the NBER. The Export Bonus Scheme and the Export Performance Licensing Scheme are discussed in respect of their institutional framework, rate structure, scope and coverage, premia and other important features. The rebates of import duties paid on inputs used in the production of exports and the exemption of exports from indirect taxes are also discussed. The Effective Exchange Rates (EERs) for exports taking into account the export subsidies involved in these Schemes and the export taxes where applicable, are calculated for a large number of commodity groups as well as for the manufacturing and primary sectors. Both nominal and real EERs are examined in detail. The extent of discrimination against the exports of the primary sector implied by the lower EERs afforded to them is determined, and its effects on the growth of the economy and on export performance are outlined. It is found that this discrimination has fallen, on average, by about 23 per cent during the period after the devaluation of 1972 compared with that during the pre-devaluation period. The price-level-deflated-EERs (PLD-EERs) in Pakistan are compared with the PLD-EERs in some other developing countries for the period 1960-61 to 1970-71.

A statistical analysis of the exports of the manufacturing and primary sectors as well as of a wide range of commodity groups is undertaken to determine the relationship between export performance and the EERs. On the premise of the relative unimportance of Pakistan's exports in total world exports, a single-equation model is estimated. The partial adjustment model is also estimated to take account of the lag structure. It is found that the EERs have been a significant determinant of exports, particularly of manufactures, from Pakistan during the period studied. Moreover, during this period, the growth of the manufacturing sector has been export-biased, while the growth of the primary sector has been biased against exports.

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CHAPTER I

Introduction

Pakistan [1] like many other developing countries has pursued a policy of export promotion since the late fifties. This was done within the context of an over-valued official rate of exchange. Various export promotion schemes such as the Export Bonus Scheme, the Export Performance Licensing Scheme and a number of other monetary and fiscal incentives were adopted in order to promote exports from the country. As a result, Pakistan's exports have increased at an annual rate of about 15.5 per cent during the period of 1960-61 to 1977-78 [2] (though substantial year-to-year variations in the rate of growth of exports were also observable during this period). These schemes, in essence, provided a mechanism through which the domestic currency earnings of exporters (especially of manufactured commodities) could be enhanced at an unchanged official rate of exchange, and the exporters could be compensated for the high costs of production of exportables incurred by them due to protection. The general aim of the present study is to evaluate the effectiveness of these schemes in expanding exports from the country during the period 1959-60 to 1976-77. Some other effects of the schemes like sectoral discrimination and its impact on the economy and on export performance will also be examined. More specifically, the purpose of the study is:-

(i) to describe and analyse the main features of the export promotion schemes of Pakistan, and the export duties, sales tax etc., where applicable;

(ii) to express incentives (or disincentives) involved in these schemes quantitatively in a measure of the Effective Exchange Rate (EER), and to analyse the behaviour of the nominal, as well as the real EERs;

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(1) Pakistan in this study refers to former West Pakistan only.

(2) Pakistan's Trade/Fiscal/Agriculture Year is from July 1st to June 30th. For example, the year 1960-61 means from July 1st 1960 to June 30th 1961.

iii) to determine quantitatively the responsiveness of exports of the Manufacturing and Primary sectors as well as for some disaggregated commodities to EERs or a relative price index.

From the very beginning, the export promotion schemes of Pakistan, especially the Export Bonus Scheme, have attracted the attention of economists. Bruton and Bose (1963), Hussain (1964), Ahmad (1966), Mallon 1966), Soligo and Stern (1966), Islam (1968, 1969), Hecox (1969,1970), Hufbauer (1971), Husain (1974) and Guisinger (1977) have all examined one or other aspect of the schemes. Bruton and Bose (1963) investigated the 'net' effects of the Export Bonus Scheme on increasing the export earnings from some major commodities for the three-year period of 1959 through 1961. They concluded that the scheme had resulted in a significant increase in Pakistan's foreign-exchange earnings over the three-year period. Ahmad (1966) extended their study in respect of cotton and cotton manufactures to the period of 1964. Mallon (1966) considered the relative advantages of exporting raw cotton as compared with exporting its manufactures. He concluded that in 1959-60 the price situation in the foreign market for raw cotton was such that foreign-exchange earnings would have been higher from exporting raw cotton than they were from exporting cotton yarn. The reason for that was said to be a relatively low value-added in the production of yarn and a relatively high (20%) bonus on the export of yarn during that year. In the mid-sixties, it was alleged that the export promotion system of Pakistan could result in a loss of foreign exchange in a much more direct sense. It was conjectured that the foreign exchange paid on the total imported inputs embodied in exported goods could exceed the foreign exchange earnings from them, while the exporter could still make profit in domestic currency. Soligo and Stern (1966), Islam (1968) and Hecox (1969) investigated this hypothesis. They concluded that it was unfounded, and among the industries studied, they found no industry which had a negative net foreign exchange earning. All these studies were short-run in character.

The analysis of Pakistan's export promotion schemes over time has been relatively limited. Hussain (1974) has investigated the response of exports to the EERs for a limited number of commodities during the period of 1959-60 to 1967-68. The calculation of the EERs in his study included only the Export Bonus Scheme. Since other export promotional schemes were also operating during the period, the EERs taking into account only the Export Bonus Scheme, would be an under-estimate of the true EERs. This, in turn, would over-estimate the response of exports. The NBER project 'Foreign Trade Régimes and Economic Development' co-directed by Professors Bhagwati and Krueger had included Pakistan among the project countries. Due to the events of 1971 (i.e. the separation of former East Pakistan from the rest of the country), the study on Pakistan was not carried through. The present study, which accepts the framework established by the NBER as a starting point, may, therefore, be regarded as correcting this omission. Two qualifications should be made to this:-

Firstly, this being a one-man study rather than a team study, as in the NBER case, it concentrates on one aspect, namely the calculation of the EERs and the responsiveness of exports to the EERs.

Secondly, in view of the events of 1971, the study concentrates only on what was formerly West Pakistan (now the Islamic Republic of Pakistan).

Although the present study draws upon the concepts and methods of the NBER project, it is hoped that the way in which it adapts and extends them to the unique situation of Pakistan will provide material which might be of interest to scholars currently active in this field, and will make available empirical estimates which might be useful to policy-makers. The study goes beyond the NBER methods in that it deals with two schemes, that is, the Export Bonus Scheme and the Export Performance Licensing Scheme, which were unique to Pakistani economy. The computation of the EERs in the present study involves not only the fiscal incentives, but it also involves these two schemes. Furthermore, at present the

work on this area in Pakistan is limited, both in extent and scope. The present study examines almost all the important export promotion schemes for about 27 commodity groups and covers the period from 1959-60 to 1976-77. The exports covered in the study have ranged from about 69 to 88 per cent of the total exports of Pakistan in different years, and have included important primary commodities, raw materials and manufactured commodities. Thus, the present study is considerably broader in scope, and considerably extends (both in terms of commodities and time-period covered) the existing body of analysis.

The scheme of the study, in brief, is as follows:-

Chapters 2 and 3 provide the necessary background to the remainder of the thesis. Chapter 2 considers the general features of the growth of the Pakistan economy for the period of 1949-50 to 1978-79. This chapter begins with discussing the major structural changes in the economy during this period, which is followed by a detailed examination of the problem of balance of payments and the problem of debt servicing in Pakistan. After that, main features of Pakistan's commodity exports such as their composition, growth rates and geographic distribution etc. are discussed. In Chapter 3 the focus is narrowed and the evolution of the protective structure of the Pakistan economy is examined. In Chapter 4, measures taken by the Government to overcome some of the effects of protection, in particular those concerned with export promotion, are discussed. The institutional framework, rate structure and scope and coverage etc. of the Export Bonus Scheme and the Export Performance Licensing Scheme as well as the fiscal incentives given to exporters are discussed in Chapter 4. To express the export promotion schemes quantitatively, Chapter 5 undertakes the calculations necessary for determing the EERs and presents a detailed analysis of the EERs. In Chapter 6 a statistical analysis is undertaken of the relationship between the EERs and the exports of a wide range of commodity groups over the period of 1960-61 to 1976-77. Finally, Chapter 7 concludes the study by giving a summary of main findings of the preceding chapters.

CHAPTER II

THE ECONOMY OF PAKISTAN AND ITS GROWTH.

The importance and achievement of any economic policy is determined by the overall picture of a developing economy. It is easier to focus on the specific problem at hand, once this broader context is summarised and the specific problem is put in proper perspective. The perspective would contribute to a better understanding and appreciation of the problem. The primary purpose of this study is to evaluate the export promotion schemes of Pakistan and their role in achieving the expansion of exports from the country. It is, therefore, useful to review the actual growth experience of the economy from 1949 - 50 to 1978 - 79. This will provide a foundation upon which the discussion of specific aspects of export promotional policies can be carried out.

2.1 Major Structural Changes in the Economy of Pakistan 1949 - 50 to 1978 - 79.

At the time of Independence in 1947, the economy of Pakistan was primarily agricultural; agriculture contributing nearly 60 per cent to G.N.P., 75 per cent to employment and 90 per cent to foreign exchange earnings.(1) Pakistan had almost no known natural resources except agricultural land and practically no industry. Her manufacturing capacity was limited to a few textile mills, cement factories and an oil refinery. The reasons for this relative backwardness of the manufacturing sector go back into the past century. They include the lack of conditions necessary for the development of industry in the areas now in Pakistan, like lack of coal, iron and other minerals, lack of developed port facilities, lack of entrepreneurial class etc., and perhaps some element of official neglect, because the then government policy was content to develop these areas as a supplier of agricultural products and a recruiting ground for the armed forces.(2)

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(1) The First Five Year Plan. p.213.

(2) For details see Andrus & Mohammad (1958). pp.166-169.

Since then, major structural changes have taken place in the economy of Pakistan which can be seen from Table 2.1.

Data on GNP at constant factor costs in Table 2.1 give clear evidence of the changes in the composition of GNP, which have characterised the Pakistan economy. The agricultural sector which contributed more than 50 per cent to GNP in 1949-50 has shrunken to about 30 per cent in 1978-79. This is because other sectors of the economy have grown relatively faster than agriculture. The manufacturing sector has almost doubled its share from 7.8% to about 15% of the GNP during the same period. Notable in this sector has been the growth of large-scale manufacturing,[3] which increased its share from 2.2 per cent of GNP in 1949-50 to 12.5 per cent of GNP in 1969-70, although it decreased somewhat in later years. The annual compound growth rates of different sectors, GNP and income per capita are given in Table 2.2.

It can be seen from Table 2.2 that over the entire period from 1949-50 to 1978-79 the GNP increased at an annual compound rate of 4.95 per cent and the per capita income rose at an annual rate of 2.13 per cent in real terms. However, during this period, there have been substantial variations in the growth rates. In the 1950's, GNP increased at a low rate of 3.1 per cent per annum. The high rate of population growth swallowed almost all of this increase and there was hardly any rise in per capita income. The rate of increase, and to some extent the pattern of growth, changed around 1959-60. During the 1960's the rate of increase of GNP averaged around 6.8 per cent per annum, which was significantly higher than the rate of population growth. As a result per capita income increased at the rate of about 3.8 per cent annually. The 1970's again witnessed a down-turn in the growth rates. Whereas the major growth impetus in the 1950's came from the rapidly growing industrial sector, since 1959-60 both agriculture and industry have contributed to development.

During the 1950's, the agricultural sector grew very slowly - at a rate below that of the population. The reasons

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(3) Large-scale manufacturing covers all factories and plants employing twenty or more persons and using power.

TABLE 2.1: Distribution of GNP at Constant Factor Cost of 1959-60 (Million Rs.)

Sector \ Year	1949-50	1954-55	1959-60	1964-65	1969-70	1974-75	1978-79 (provisional)
(1) Agriculture	6595 (53.27)	6948 (48.04)	7711 (45.89)	9276 (39.81)	12574 (38.88)	13074 (32.97)	14948 (29.72)
(2) Manufacturing	961 (7.76)	1569 (10.85)	2018 (12.01)	3514 (15.08)	5186 (16.04)	6136 (15.48)	7160 (14.23)
(a) Large-scale	277 (2.24)	802 (5.54)	1159 (6.90)	2523 (10.83)	4042 (12.50)	4509 (11.37)	5003 (9.95)
(b) Small-scale	684 (5.52)	767 (5.30)	859 (5.11)	991 (4.25)	1144 (3.54)	1627 (4.10)	2157 (4.29)
(3) Mining & quarrying	27 (0.22)	45 (0.31)	70 (0.42)	122 (0.52)	157 (0.49)	181 (0.46)	217 (0.43)
(4) Construction	179 (1.45)	283 (1.96)	427 (2.54)	1029 (4.42)	1357 (4.20)	1754 (4.42)	2452 (4.87)
(5) Electricity & Gas	27 (0.22)	37 (0.25)	87 (0.52)	172 (0.74)	639 (1.98)	949 (2.39)	1346 (2.68)
(6) All others,n.e.s.	4591 (37.08)	5582 (38.59)	6490 (38.62)	9186 (39.43)	12425 (38.42)	17557 (44.28)	24181 (48.07)
GNP	12380	14464	16803	23299	32338	39651	50304
Population (Millions)	35.31	39.87	45.03	51.76	59.70	69.21	77.90
Per capita income (Rs)	351	363	373	450	542	573	646

Figures in parentheses are percentage shares of each sector in GNP.

SOURCE: Pakistan Economic Survey (1978-79) Statistical Section Table No. 2.1 pp.9-11.

TABLE 2.2: Annual Compound Growth Rates of GNP and Different Sectors (Per cent).

Sector \ Period	1949-50 to 1954-55	1954-55 to 1959-60	1959-60 to 1964-65	1964-65 to 1969-70	1969-70 to 1974-75	1974-75 to 1978-79	1949-50 to 1959-60	1959-60 to 1969-70	1969-70 to 1978-79	1959-60 to 1978-79	1949-50 to 1978-79
(1) Agriculture	1.05	2.11	3.77	6.27	0.78	3.41	1.58	5.01	1.94	3.55	2.86
(2) Manufacturing	10.30	5.16	11.73	8.09	3.42	3.93	7.70	9.90	3.65	6.89	7.17
(a) Large-scale	23.69	7.64	16.83	9.88	2.21	2.63	15.39	13.31	2.40	8.00	10.49
(b) Small-scale	2.32	2.29	2.90	2.91	7.30	7.30	2.30	2.91	7.30	4.97	4.04
(3) Mining & quarrying	10.76	9.24	11.75	5.17	2.89	4.64	9.99	8.41	3.66	6.14	7.45
(4) Construction	9.59	8.58	19.23	5.69	5.27	8.74	9.08	12.26	6.79	9.64	9.45
(5) Electricity & Gas	6.50	18.65	14.61	30.02	8.23	9.13	12.41	22.07	8.63	15.51	14.43
(6) All other, n.e.s.	3.99	3.06	7.19	6.23	7.16	8.33	3.52	6.71	7.68	7.17	5.90
GNP	3.16	3.04	6.76	6.78	4.16	6.13	3.10	6.77	5.03	5.94	4.95
Population	2.46	2.46	2.83	2.89	3.00	3.00	2.46	2.86	3.00	2.93	2.77
Per capita income	0.68	0.55	3.83	3.79	1.12	3.04	0.61	3.81	1.97	2.93	2.13

SOURCE: Computed from data in Table 2.1, using compound interest formula (i.e. $C = R(1+i)^t$)

for that perhaps were reliance on age-old agricultural technology and acceptance of constraints on key agricultural inputs such as fertilizer and water. During the 1960's, the situation changed dramatically and the rate of agricultural growth roughly tripled. This change during the 1960's, as argued by Stern and Falcon (1970) came primarily from a strategy involving the following assumptions:-

(a) that the farmers would respond to economic stimuli;

(b) that one of the most important actions that government could take would be to create a favourable economic climate for the farmers;

(c) that sound economic policy would be fruitless unless major efforts were made to supply modern agricultural inputs at the right place and time.

In implementing this incentive/technology strategy, a number of policy decisions were significant. Major subsidies were provided for fertilizer and plant protection materials. To take the case of fertilizer, the subsidy averaged about 50 per cent for much of the early 1960's. The situation has not changed much since then. The government have all along been subsidizing the sale of fertilizers. In addition, irrigation and use of improved seed were also responsible for agricultural break-through. The surge in private tube-well development was indeed one of the most spectacular elements in Pakistan's agricultural modernization.(4) The government have been providing large amounts of subsidy for encouraging the installation of private tube-wells. The tube-wells expanded irrigation water supplies and permitted higher cropping intensities, greater flexibility with regard to crops that could be grown and higher yields per acre.

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(4) Annual rate of installation of private tube-wells in Pakistan in some selected years.

Year.	Tube-wells
1. 1959 - 60	1300
2. 1963 - 64	6600
3. 1968 - 69	9500
4. 1973 - 74	10363
5. 1978 - 79	9320

SOURCE: For 1,2,3 Stern & Falcon (1970) p.42.
For 4,5 Pakistan Economic Survey (1978-79) Statistical Table 3.7, p.33.

In the mid-sixties wheat-seed developments in Mexico and rice-seed improvements at the International Rice Research Institute (IRRI) in the Phillipines provided the means to increase food production in Pakistan. Since then, rather successful efforts have been made to bring more and more areas under high yielding varieties of seed. Starting with 12,000 acres under high yielding varieties of wheat seed in 1965-66, the area under these varieties had reached more than 11 million acres in 1977-78. Starting a year later, the situation for rice has been roughly similar.

Due to these developments Pakistan in 1968-69, found itself in a new situation. The problems of deficits had given way to surpluses in food grains. However, this success story could not be carried on into the 1970's. There had been a serious set-back to agriculture in the early 1970's. Short-fall in investment in the economy coupled with a series of bad weather years slowed down the agricultural growth rate. After the severe droughts of a number of years, 1973-74 was marred by the worst floods in the history of the country. The growth rate of agriculture during 1969-70 to 1974-75 had been less than 1 per cent, which after strenuous efforts of the government, picked up somewhat in later years to become 3.4 per cent per annum during 1974-75 to 1978-79.

The process of industrialization started from a very low base, but has shown a remarkably high rate of growth of more than 10 per cent per annum for the large-scale manufacturing sector during the period 1949-50 to 1978-79.[5] This rate of increase has not remained steady over time, but has shown considerable variations during different sub-periods. The highest growth rate of 23.7% was observed during the early fifties, which slowed down in the latter half of the fifties. During 1959-60 to 1964-65 it accelerated to 16.8% per annum, but declined again to 9.9 per cent in the second half of the sixties. Finally, after 1969-70 the rate of growth

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(5) We concentrate on the discussion of large-scale manufacturing sector instead of the manufacturing sector including both large and small scale, because growth rates of the small scale manufacturing sector, as reported in the national accounts up to 1969-70, are assumed to be equal to the growth rates of population, which is not a very plausible assumption.

of the large-scale manufacturing sector fell drastically and for the first time, it fell below the growth rate of GNP. It has often been alleged that the high growth rate in large-scale manufacturing during the early fifties was more a statistical than a real phenomenon. Given the extremely small base from which Pakistan's industrial output was measured, the argument runs, large rates of increase were to be expected. Yet during the 1960's, when the manufacturing sector was clearly no longer an insignificant part of the economic structure of Pakistan, the annual growth rate of more than 13 per cent was one of the highest observed in the developing countries.

A number of factors contributed to the impressive performance of the manufacturing sector during the first two decades. After Independence, a drive for industrialization started in Pakistan. Recognizing the deficiencies in the industrial sector and the predominantly agricultural character of the economy, the government announced in the 'Statement of Industrial Policy' of April 2, 1948, that *"Pakistan would seek to manufacture in its own territories, the products of its raw materials in particular cotton, ..., hides and skins etc. for which there is an assured market whether at home or abroad. At the same time, to meet the requirements of the home market, efforts will be made to develop consumer goods industries for which Pakistan is at present dependent on outside sources ..... Some of the heavy industries might have to come at a later stage of the industrial programme, but no opportunity should be lost to develop any heavy industry which is considered essential for the speedy achievement of a strong and balanced economy".* (6)

Muslims who emigrated from India and Burma had brought with them small amounts of capital, as well as a limited fund of technical and entrepreneurial skills. They took advantage of the opportunity. Initial investments were made in factories that could provide the goods and services previously purchased from plants which were located in now independent India.

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(6) Report of the Economic Appraisal Committee, Karachi 1953, Appendix No. 16.

The outbreak of the Korean war in 1950 raised the prices of Pakistan's exports of primary commodities to an unprecedented level. This allowed the government to adopt a policy of import liberalization, which after the 1949 decision of non-devaluation of Pakistan's Rupee had been cautious. During the Korean boom period from 1950 to 1952, exports and imports rose rapidly. The resulting prosperity further stimulated investment, but perhaps more important, it led to the development of a class of traders who gained considerable business acumen and were able to accumulate large cash reserves. With the end of the Korean war and collapse of the raw materials boom, the government found it necessary to curtail imports sharply. The control of imports through quantitative restrictions led to a highly protected market for consumer goods. At the same time, imports of capital goods remained relatively cheap as Pakistan maintained its over-valued exchange rate and relatively low tariffs on machinery.

From the outset, the government policies provided the incentives necessary for rapid industrial growth. As early as 1948-49, the government announced certain measures designed to stimulate investment in industry, which included among others the provision for allowing depreciation at enhanced rates, and exemption of profits of new undertakings from direct taxes for a numer of years and up to a certain proportion of profits earned.(7) Although Pakistan's industrial sector has been largely in private hands, its success during the early fifties was clearly not due to private initiative alone. The government provided the necessary infrastructure, credit facilities and other incentives conducive to rapid private investment. In addition to these, the government had, through the Pakistan Industrial Development Corporation (PIDC) established in 1950, itself undertaken some industrial investment. The primary purpose of the PIDC was to venture into those areas where private investors were reluctant to go, either because of the extreme risks involved, or because they required a level of invest-

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(7) For details, see Andrus & Mohammad (1958). pp.168-169, 326-27.

ment beyond the resources of the private entrepreneurs.

Lewis (1969) has observed that high growth rates of the manufacturing sector in the earlier years were largely the result of an adjustment in the structure of production following the partition of the sub-Continent into two independent states of Pakistan and India. Even if economic policy had been scrupulously neutral, it was likely that industrial growth would have been relatively faster simply because of Partition which destroyed the Customs Union.[8] Government policy was not neutral, however, but decidedly favoured industrialization.

The growth of the manufacturing sector slowed down in the latter half of the fifties mainly because of the limited availability of finances and severe controls on imports, investment and prices. After the initial favourable effects of the 1955 Rupee devaluation, export receipts fell drastically The main causes of this decline in exports were the internal inflation generated by deficit financing and food shortages, the fall in the exportable surplus of raw cotton brought about by its increased domestic absorption, the lack of a corresponding increase in exports of cotton manufactures and the decline in the export prices.[9] The import controls adopted in late 1952 were made more stringent and the private sector investment goods imports were squeezed. The shortages of imported raw materials and spare parts remained serious and continued to hamper full utilization of industrial capacity. In 1958, the Martial Law Government imposed price controls covering a large number (88 articles originally) of consumer goods and industrial raw materials, in order to check the rising spiral of prices. All these factors resulted in slowing down the industrial expansion during 1954-55 to 1959-60.

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(8) Lewis, (1969) p.13.

(9) The money supply expanded by 37 per cent over the three-year period from mid-1955 to middle-1958; domestic consumption of raw cotton increased from 810,000 bales in 1955-56 to 1,125,000 bales in 1957-8; exports of raw cotton dropped from 948,000 bales to 447,000 bales during the same period; and the index of export prices (Base March 1948 to April 1949 = 100) fell from 91.00 in 1956-57 to 81.5 in 1959-60. Source: Hasan, (1961) pp. 32-33.

During the period from 1959-60 to 1964-65, the massive capital inflow permitted the government to liberalize the foreign exchange market. The total inflow of grants and loans during the Second Five Year Plan (1960-65) was 2757 million dollars, compared to 1073 million dollars during the First Five Year Plan (1955-60).[10] Besides the policies of import liberalization, the government took various measures such as the granting of tax holidays, accelerated depreciation allowances and subsidies to the exports of manufactured commodities in order to promote manufacturing activities during this period. All these factors played a major role in accelerating the growth rate from 7.64 per cent during the 1954-55 to 1959-60 period to 16.83 per cent per annum in the 1959-60 to 1964-65 period. The war with India in September 1965 and following the war the suspension of 'Aid' put a great strain on the availability of resources for the growth. The domestic resources were diverted from development to defence, and the disruption of foreign assistance put heavy constraints on the raw material imports. The process of liberalizing the foreign exchange market was reversed and the expansion of consumer goods industries was deliberately slowed-down. All these factors coupled with the labour unrest of the late sixties, caused the growth rate of the manufacturing sector during the period of 1964-65 to 1969-70 to fall to 9.88 per cent per annum.

A notable feature of industrial development in Pakistan was the important qualitative difference which marked the investment process in the 1950's as compared to the 1960's. Whereas the initial impetus for investment was found in the development of consumer goods industries and other manufacturing processes based on a relatively simple technology, the later pattern of investment was concentrated more heavily in less traditional sectors such as fertilizer plants, electrical machinery and other capital goods industries. This made the growth of industrial output broadly based and more diversified.

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(10) Pakistan Economic Survey (1978-79). p.146.

Another difference between the two periods was brought out in a study of the sources of growth of large-scale manufacturing by Lewis and Soligo (1965). They found that while in the period from 1954-55 to 1959-60 the process of import substitution had provided a major impetus to growth, in the early sixties the growth of domestic demand became a major motive force. This can be seen from Table 2.3. After 1969-70 the manufacturing sector in Pakistan suffered from serious set-backs. Many factors working simultaneously led to a decline in the growth rate of the large-scale manufacturing sector. The crisis in East Pakistan (now Bangladesh) and the war with India in 1971 resulted in the loss of market of the eastern wing. The economy which had been developed on complementary basis over the past two decades was forced to rationalise its production structure in accordance with the new situation. The haphazard nationalisation policies of the Government in addition to the labour unrest of the early seventies created a considerable amount of uncertainty, which led to a sharp fall in private investment. In 1972, the Government started the process of nationalization, by taking control of 32 industrial units in 10 categories of basic industries, and this process continued intermittantly until 1976.[11] The oil price rises since 1973 and the international recession have also adversely affected manufacturing activities in Pakistan. As a result of all these factors, during the period of 1969-70 to 1978-79, the rate of growth of the large-scale manufacturing sector fell drastically to a low level of 2.4 per cent per annum, which was even below the population growth rate of 3 per cent per annum during

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(11) The industries nationalised in January, 1972 were:

1. Iron and steel industries.
2. Heavy Engineering Industries.
3. Heavy Electrical industries.
4. Basic Metal Industries.
5. Assembly & Manufacture of Motor Vehicles.
6. Tractor Plants - assembly & manufacture.
7. Heavy & Basic Chemicals.
8. Petro-chemical industries.
9. Cement Industries.
10. Public utilities, i.e.

(a) electricity generation, transmission and distribution;
(b) gas and (c) oil refineries.

In March, 1972 Life Insurance business was nationalised.
In Sept. 1973 26 industrial units producing vegetable ghee were nationalised.
In 1974 Pakistani Banks, Shipping industry, Petroleum marketing distribution, and
In 1976: Rice-husking mills were nationalized.

TABLE 2.3

Summary sources of output growth by sub-groups of industries. (Per cent)

	Growth due to		
	Domestic Demand	Exports	Import Substitution
1954-55 to 1959-60			
Consumption goods	55.7	16.5	27.8
Intermediate goods	34.0	57.9	8.1
Investment & related goods	71.8	1.0	27.2
Total	53.1	24.0	29.9
1959-60 to 1963-64			
Consumption goods	110.0	-1.1	-8.9
Intermediate goods	47.6	21.8	30.6
Investment & related goods	108.5	1.2	-9.6
Total	95.7	4.6	-0.3

SOURCE: Lewis & Soligo (1965) p.106.

the same period.[12] It may also be seen from Table 2.2 that during the period of 1949-50 to 1978-79 the growth rates for construction and electricity and gas sectors were quite high, i.e. on average 9.45 per cent per annum for construction and 14.43 per cent per annum for electricity and gas. However, during this period of three decades the growth rates for these sectors showed wide fluctuations and ranged between 5.27 to 19.23 per cent annually for construction and between 6.5 to 30.02 per cent annually for electricity and gas. Due to the high growth rates the contribution of these sectors to the GNP increased considerably. The share of construction increased from 1.45% of GNP in 1949-50 to 4.87 per cent of GNP in 1978-79, and for the electricity and gas sector it increased from 0.22 per cent to 2.68 per cent of GNP during the same period.

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(12) In fact, the large-scale manufacturing sector experienced for the first time in the history of Pakistan, negative growth of the order of -6.8, -1.7, -0.5, -2.3 in the years 1971-2, 1974-5, 1975-6 and 1976-77 respectively. Source: Computed from data in Pakistan Economic Survey, (1978-79), Statistical Tables 4.1, 4.2, p.45.

2.2 Investment and Savings.

Many economists [Arthur Lewis (1954), Rostow (1960) etc.] have emphasized the role of capital accumulation as the major factor governing the rate of development. Capital accumulation depends upon investment and more investment necessitates more savings or foreign assistance. Foreign assistance if not in the form of grants, means some burden in the future. Domestic savings are, therefore, the more reliable source of investment to break the vicious circle of poverty and under-development.

The investment and savings performance of Pakistan has been quite encouraging, as can be seen from Table 2.4.

TABLE 2.4

Investment and Savings as per cent of GNP.

	1949-50	1959-60	1964-65	1969-70
Gross Investments	3.5	8.9	18.3	13.5
Gross Savings	2.2	6.1	11.7	9.7

SOURCE: The Fourth Five Year Plan, p.8.

Gross investment as a proportion of GNP rose from 3.5 per cent in 1949-50 to 8.9 per cent in 1959-60 and 18.3 per cent in 1964-65, though it fell to 13.5 per cent in 1969-70. This escalation of investment ratios has, to a considerable extent, been due to the large aid inflows. After 1964-65, when the aid inflows decreased, the investment ratio fell sharply.

The movement of savings paralleled that of investment. While gross savings were only 2.2 per cent of GNP in 1949-50, they increased to 6.1 per cent in 1959-60 and to 11.7 per cent in 1964-65, however falling back to 9.7 per cent in 1969-70. This might suggest a positive correlation between domestic savings and external resources inflow - a hypothesis which needs empirical verification. Moreover, during the 1950s and 1960s higher domestic savings were sought through

the promotion of inequalities of income distribution.[13] Relentless pursuit of economic growth and the distribution of additional output in favour of the saving sectors resulted in wide-spread social unrest in early 1969. Since then the development strategy has been changed and attempts to achieve greater social justice have been made.

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(13) Based on the "Quarterly Surveys of Current Economic Conditions" conducted by the C.S.O. during the fiscal year 1963-64. Bergan (1972) estimated the following distribution of Personal Income in Pakistan:-

Income Shares of Ordinal Groups Cumulated percentage of households. (in terms of income per household)	Cumulated percentage of total Personal Income (1963-64)
Lowest 5 per cent get	0.8
" 10 " " "	2.3
" 20 " " "	6.5
" 30 " " "	11.5
" 40 " " "	17.5
" 50 " " "	24.5
" 60 " " "	33.0
" 70 " " "	43.0
" 80 " " "	54.5
" 90 " " "	69.5
" 95 " " "	80.0
" 100 " " "	100.0

SOURCE: Bergan: "Personal Income Distribution and Personal Savings", in Griffin & Khan (1972), Table 8.4, p.214.

2.3 Balance of Payments.

The balance of payments of a country is 'a systematic record of all economic transactions during the period between residents of the reporting country and the residents of other countries'. As in normal accounting practice, the balance of payments is shown in terms of debit and credit entries. All international transactions which give rise to foreigners' money claims on the home country are debit entries; all those giving rise to domestic money claims on foreigners are credit entries. The main items in the statement of the balance of payments include:-

1. Visible imports and exports (i.e. imports and exports of goods).
2. Invisible imports and exports (i.e. payments or receipts in respect of services like shipping freight, tourist expenditures, payments for financial and insurance services, and interest payments in respect of outstanding loans etc.)
3. Unrequited transfers (i.e. gifts, emigrants' remittances, governmental grants etc. - payments and receipts which are not matched by simultaneous flows of goods and services in the other direction)
4. Capital payments and receipts (i.e. loans, capital repayments, purchase or sale of assets etc.)

In an accounting sense the balance of payments always balances since, as in all double-entry accounts, total receipts must equal total payments if all transactions are included. Wherein then may we derive the meaning for the terms 'surplus' and 'deficit' in the balance of payments?

For this purpose, using the terminology of Meade [14] we may divide the items included in the balance of payments into Autonomous items and Accommodating items. The autonomous items consist of commercial imports and exports, unrequited transfers and all foreign capital investments undertaken for profit by private enterprise, while accommodating items should include gold and currency transfers by central monetary authorities, short-term balance adjustments and loans.

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(14) Meade (1951, Vol.I, Ch.1).

A deficit or surplus then is measured by the actual amount of accommodating finance required over a given period of time.

Pakistan's balance of payments experience has in several ways been typical of a developing economy attempting to achieve rapid economic progress. Deficits in her balance of payments have been almost a permanent feature from the very outset. While Pakistan has been heavily dependent on the export of a few primary commodities like cotton, rice hides and skins etc., markets for which show a great deal of instability, her import needs have been increasing due to the import of development goods like machinery, equipment and raw materials and spare parts. The prices of primary commodities, due to inelasticities of supply and demand, tend to show extreme fluctuations. Unavoidable and unforeseeable factors such as natural calamities, droughts, floods and pest attack, can result in crop harvest failure, on whose export the country depends.

Then there are the more 'fundamental' causes like the secular deterioration in the terms of trade and structural changes at home or abroad. The loss of export markets, monetary imbalance in the domestic market or increased import intensity of domestic production might result in the worsening of the balance of payments position. Since 1973, the oil price rises have caused serious problems of balance of payments for the developing countries.

The balance of payments position of Pakistan for some recent years is shown in Table 2.5. It may be seen from the table that for all these years the current account has been in deficit, and the deficit has varied from year-to-year. Although exports have been rising, the import bill has been rising even faster, thus widening the trade gap. But for the unrequited transfers, the deficit in the current account would have been much higher. The unrequited transfers, particularly home remittances on the private account from people working abroad, have increased very rapidly in recent years, e.g. private remittances increased from $106.7 million in 1969-70 to $229.9 million in 1974-75, and to $1226.2 million in 1977-78. However, if capital transactions are taken into account, the overall deficit is reduced.

(a)

TABLE 2.5

BALANCE OF PAYMENTS POSITION OF PAKISTAN

(Million U.S.$)

ITEMS	1965-66			1969-70			1970-71		
	Credit	Debit	Net credit	Credit	Debit	Net credit	Credit	Debit	Net credit
A. Goods & Services.	672.4	1156.7	-484.3	828.6	1398.6	-570.0	846.5	1573.6	-727.1
1. Merchandise	564.4	917.2	-352.8	660.2	1050.2	-390.0	683.4	1186.9	-503.5
2. Non-monetary gold	0.1	-	+ 0.1	31.6	-	+ 31.6	25.9	-	+ 25.9
3. Services	107.9	239.5	-131.6	136.8	348.4	-211.6	137.2	386.7	-249.5
B. Unrequited Transfers.	229.1	6.8	+222.3	176.9	14.0	+162.9	141.6	10.9	+130.7
1. Private	44.9	6.6	+ 38.3	106.7	5.8	+100.9	68.9	5.0	+ 63.9
2. Government	184.2	0.2	+184.0	70.1	8.2	+ 61.9	72.7	5.9	+ 66.8
C. Allocation of SDRs.	-	-	-	-	-	-	-	-	-
Total Current Account (A + B + C)	901.5	1163.5	-262.0	1005.5	1412.6	-407.1	988.1	1584.5	-596.4
D. Capital & Monetary Gold.	398.2	139.3	+258.9	492.8	95.3	+397.5	661.7	58.3	+603.4
(a) Capital Transactions.	290.1	12.9	+277.2	414.2	14.6	+399.6	539.9	0.8	+539.1
1. Private	40.7	-	+ 40.7	77.9	2.5	+ 75.4	92.9	0.8	+ 92.1
2. Government	249.4	12.9	+236.5	336.3	12.1	+324.2	447.0	-	+447.0
(b) Monetary Movements.	108.1	126.4	- 17.3	78.6	80.7	- 2.1	121.8	57.5	+ 64.3
E. Errors and Omissions.	3.1	-	+ 3.1	11.7	-	+ 11.7	-	7.0	- 7.0

BALANCE OF PAYMENTS POSITION OF PAKISTAN (contd.)
(Million U.S. $)

ITEMS	1971-72			1972-73			1973-4		
	Credit	Debit	Net Credit	Credit	Debit	Net Credit	Credit	Debit	Net Credit
A. Goods and Services.	722.8	1258.5	-535.6	919.7	1195.8	-276.1	1238.1	1936.9	-698.8
1. Merchandise.	619.5	946.3	-326.7	766.7	891.2	-124.5	1019.7	1493.4	-473.7
2. Non-monetary gold.	0.2	-	+ 0.2	-	-	-	-	-	-
3. Services.	103.1	312.2	-209.1	153.0	304.6	-151.6	218.4	443.5	-225.1
B. Unrequited Transfers.	179.3	6.3	+173.0	181.1	6.1	+175.0	222.7	5.1	+217.6
1. Private	96.3	3.3	+ 93.0	146.3	1.3	+145.0	151.2	0.9	+150.3
2. Government.	83.0	3.0	+ 80.0	34.8	4.8	+ 30.0	71.5	4.2	+ 67.3
C. Allocation of SDRs.	27.0	-	+ 27.0	-	-	-	-	-	-
Total Current Account (A + β + C)	929.1	1264.8	-335.7	1100.8	1201.9	-101.1	1460.8	1942.0	-481.2
D. Capital & Monetary Gold.	454.0	156.9	+297.1	378.8	286.0	+ 92.8	635.7	149.2	+486.5
(a) Capital Transactions.	331.1	13.9	+317.2	355.6	102.8	+252.8	451.8	113.0	+338.8
1. Private.	71.4	-	+ 71.4	59.8	45.9	+ 13.8	101.0	43.4	+ 57.6
2. Government.	259.7	13.9	+245.8	295.9	56.9	+239.0	350.8	69.6	+281.2
(b) Monetary Movements.	122.9	143.0	- 20.1	23.3	183.2	-159.9	183.9	36.2	+147.7
E. Errors and Omissions.	38.5	-	+ 38.5	8.1	-	+ 8.1	-	5.3	- 5.3

BALANCE OF PAYMENTS POSITION OF PAKISTAN (contd) (c)
(Million U.S.$)

ITEMS	1974-75			1975-76			1976-77		
	Credit	Debit	Net Credit	Credit	Debit	Net Credit	Credit	Debit	Net Credit
A. Goods and Services	1289.0	2686.1	-1397.1	1460.5	2760.1	-1299.6	1437.2	3078.9	-1641.6
1. Merchandise	997.6	2114.2	-1136.6	1162.1	2139.4	- 977.3	1131.7	2417.7	-1286.0
2. Non-Monetary Gold	-	-	-	1.3	-	+ 1.3	-	-	-
3. Services	311.4	571.9	- 260.5	297.1	620.7	- 323.6	305.5	661.2	- 355.7
B. Unrequited Transfers.	338.5	5.1	+ 333.4	491.4	18.6	+ 472.8	743.8	4.7	+ 739.1
1. Private.	229.9	0.5	+ 229.4	353.4	0.4	+ 353.0	590.8	0.4	+ 590.4
2. Government.	108.6	4.6	+ 104.0	138.0	18.2	+ 119.8	152.9	4.2	+ 148.7
C. Allocation of SDRs.	-	-	-	-	-	-	-	-	-
Total Current Account (A + B + C)	1627.5	2691.2	-1063.7	1951.9	2778.7	- 826.8	2181.0	3083.6	- 902.6
D. Capital and Monetary Gold	1295.1	246.1	+1049.0	1267.4	431.9	+ 835.5	1259.4	413.9	+ 845.5
(a) Capital Transactions.	1062.2	152.8	+ 909.4	1066.7	251.5	+ 815.2	1007.1	413.9	+ 593.2
1. Private.	145.0	49.2	+ 95.8	261.1	67.5	+ 193.6	306.4	146.0	+ 160.0
2. Government.	917.2	103.6	+ 813.6	805.6	184.0	+ 621.6	700.8	267.9	+ 432.9
(b) Monetary Movements.	232.9	93.4	+ 139.5	200.7	180.4	+ 20.3	252.2	-	+ 252.2
E. Errors and Omissions.	14.7	-	+ 14.7	-	8.8	- 8.8	57.0	-	+ 57.0

BALANCE OF PAYMENTS POSITION OF PAKISTAN (contd) (d)
(Million U.S. $)

ITEMS	1977 - 78		
	Credit	Debit	Net Credit
A. Goods and Services	1685.5	3511.8	-1826.3
1. Merchandise	1282.5	2751.4	-1468.9
2. Non-Monetary Gold	4.2	-	+ 4.2
3. Services	398.8	760.4	- 361.6
B. Unrequited Transfers.	1352.2	14.5	1337.6
1. Private	1226.2	0.4	+1225.8
2. Government.	126.0	14.1	+ 111.8
C. Allocation of SDRs.	-	-	-
Total Current Account (A + B + C)	3037.7	3526.3	- 488.6
D. Capital and Monetary Gold	1159.9	644.5	+ 512.5
(a) Capital Transactions.	1133.5	306.0	+ 827.6
1. Private.	312.4	184.1	+ 128.3
2. Government.	821.1	121.9	+ 699.3
(b) Monetary Movements.	23.4	338.5	- 315.1
E. Errors and Omissions.	-	23.8	- 23.8

SOURCE: (i) 1965-66 based on Table No. 34 Pakistan Economic Survey (1977-78) Statistical Section pp.96-97.

(ii) Rest of the table based on the data in Pakistan Economic Survey (1978-79) Statistical Section Table 9.10, pp.120-127.

A brief review of the component parts of the Balance of Payments of Pakistan is given below:-

2.3.1 Merchandise Account:-

The position for the imports and exports of goods, which is the major factor in the balance of payments is given in Table 2.6.

TABLE 2.6: Value of Commodity Imports and Exports (Million Rupees)

(July-June)	IMPORTS	EXPORTS	BALANCE	EXPORTS AS % OF IMPORTS
1948-49	1176.8	542.4	- 634.4	46.1
1949-50	912.2	535.1	- 377.1	58.7
1950-51	1167.1	1342.5	+ 175.4	115.0
1951-52	1473.9	921.9	- 552.0	62.5
1952-53	1017.3	867.4	- 149.9	85.3
1953-54	824.3	641.0	- 183.3	77.8
1954-55	783.0	491.4	- 291.6	62.8
1955-56	964.5	742.4	- 221.1	77.0
1956-57	1516.0	698.2	- 817.8	46.1
1957-58	1314.3	433.6	- 880.7	33.0
1958-59	1024.6	444.4	- 580.2	43.4
1959-60	1805.7	763.1	-1042.6	42.3
1960-61	2173.2	540.2	-1633.0	24.9
1961-62	2236.3	542.9	-1693.4	24.3
1962-63	2800.1	998.1	-1802.0	35.6
1963-64	2981.6	1075.0	-1906.1	36.1
1964-65	3672.4	1139.6	-2532.8	31.0
1965-66	2880.3	1203.6	-1676.7	41.8
1966-67	3625.7	1297.3	-2328.4	35.8
1967-68	3327.2	1644.8	-1682.4	49.4
1968-69	3046.6	1699.9	-1346.7	55.8
1969-70	3285.1	1608.6	-1676.5	49.0
1970-71	3602.4	1998.4	-1604.0	55.5
1971-72	3495.4	3371.4	- 124.0	96.5
1972-73	8398.3	8551.2	+ 152.9	101.8
1973-74	13479.2	10161.2	-3318.0	75.4
1974-75	20925.0	10286.3	-10638.7	49.2
1975-76	20465.3	11252.9	-9212.4	55.0
1976-77	23012.2	11293.9	-11718.3	49.1
1977-78	27814.7	12980.4	-14834.3	46.7

Note: (1) Figures are unadjusted for the devaluation of rupee in May 1972, when par value of the rupee was changed from Rs 4.76 = $1 to Rs 11 = $1, and the revaluation in February 1973 when the par value became Rs 9.9 = $1.

(2) Data on exports do not include re-exports from 1967-68 onwards.

SOURCE: Pakistan Economic Survey (1978-79) Statistical Section, Table 9.1, p.99.

Pakistan has experienced a negative balance on the merchandise account for almost all the years since Independence.

The only exceptions have been the years 1950-51 and 1972-73. In 1950-51 the unprecedented rise in export prices of primary commodities due to the Korean war resulted in Pakistan's high earnings. The surplus of 1972-73 was achieved partly because of the sharp increase in the volume of exports due to the diversion of exports from former East Pakistan to foreign countries, and the devaluation of the rupee in 1972, and partly because of a slower increase in imports due to uncertain internal conditions. In all the other years imports have exceeded exports both because of internal and external factors. Higher imports during the sixties and seventies were allowed by the increased flow of foreign assistance mainly in the form of long-term loans. The imports have been growing primarily because of the development needs of the country. Liberal imports of machinery and spare parts, agricultural inputs and industrial raw material have been allowed, while some imports of consumers' goods, mainly food items, are needed to meet the minimum consumption needs of the country. The exports have failed to match the growth of imports because of a number of factors like bad weather conditions, lack of availability of surplus for exports and lack of competitiveness etc. On the external front a notable factor has been the secular deterioration of the terms of trade for Pakistan's exports which can be seen from Table 2.7.

Table 2.7 gives indices of unit values of imports, exports and terms of trade from 1960-61 to 1977-78 with different base periods. They are not directly comparable, but one can see the trends in each. The import prices have been rising faster than the export prices, making the terms of trade unfavourable. During the period 1960-61 to 1977-78 there has been a deterioration of nearly 30% in terms of trade, which has accentuated the already unfavourable position of the balance of payments.

2.3.2 Invisible Account.

The Invisible account has two broad segments, viz. (i) Services, and (ii) Unrequited transfers. Under the Services Sector, payments and receipts have both been increasing but the payments have always exceeded the receipts. The main reason for that is Pakistan's heavy dependence on foreign

TABLE 2.7

INDICES of Unit Value of Imports & Exports and Terms of Trade.

1960-61 = 100				1969-70 = 100			
Year	Imports (General)	Exports (General)	Terms of Trade	Year	Imports (General)	Exports (General)	Terms of Trade
1960-61	100.0	100.0	100.0	1969-70	100.0	100.0	100.0
1961-62	110.4	102.5	92.4 (92.8)	1970-71	119.7	106.9	89.3
1962-63	114.1	100.5	88.2	1971-72	155.9	129.1	82.8
1963-64	118.5	100.5	85.3 (84.8)	1972-73	285.2	272.6	95.6
1964-65	116.1	104.5	90.0	1973-74	412.6	439.0	106.4
1965-66	113.0	108.5	96.3 (96.0)	1974-75	614.5	409.7	66.7
1966-67	117.0	105.1	90.5 (89.8)	1975-76	582.6	410.8	70.5
1967-68	115.2	108.6	94.2	1976-77	585.4	488.5	83.4
1968-69	114.5	107.6	93.9	1977-78	628.1	508.5	81.0
1969-70	122.2	106.1	86.8				

$$\text{Terms of Trade} = \frac{\text{Export Index}}{\text{Import Index}} \times 100$$

SOURCE: Pakistan Economic Survey 1973-74
Statistical Table 35 pp.76-77
(Corrected where wrongly calculated in the original and put in parenthesis).

SOURCE: Pakistan Economic Survey 1978-79
Statistical Table No. 9.2, p.100.

services like shipping and insurance etc. The frequent increases in the international freight and insurance rates have resulted in heavy payments under this heading.

The other important component of invisibles is those unrequited transfers which consist of two parts, namely, private transactions and official grants. While official donations are on the decline, as mentioned above, private remittances are increasing. In recent years home remittances from workers abroad have increased very rapidly. The sizeable increase in the private remittances has made the invisible account show a surplus, and reduced slightly the deficit on the current account.

2.3.3 Capital Account.

Heavy deficits on the current account necessitate the finding of means to bridge the gap between payments and receipts. Some deficits might have been deliberately created for the purpose of achieving rapid economic growth. Pakistan's deficits, particularly during the 1960's, were part of the policy of financing development through foreign assistance. In recent years the situation has become severe both because of internal and external factors. Oil price rises and depressed conditions for Pakistan's exports have made larger capital inflow necessary in order to strengthen the balance of payments position. The following table shows the amount of capital inflow into Pakistan mostly in the form of loans repayable in foreign exchange.

TABLE 2.8: Total Capital Inflow (Million US $) 1955-78.

PERIOD	TOTAL CAPITAL INFLOW (Million U.S. $)
Five years (1955-56 to 1959-60)	1073
Five years (1960-61 to 1964-65)	2757
Five years (1965-66 to 1969-70)	2746
Five years (1970-71 to 1974-75)	3994
1975-76	922
1976-77	1114
1977-78	979

SOURCE: Pakistan Economic Survey (1978-79) Table 10.1, p.146.

2.4 External Finance in Development Plans.

Economic policy in Pakistan has been concerned primarily with the difficult task of developing a backward economy. The start of planned development was made in 1951 with the Colombo Plan (1951-57), which was hardly a Plan in the scientific sense of the word. *"The six-year Plan was prepared in the absence of much essential information and many basic statistics. So it could not be based on a proper assessment of the national resources - human, physical and financial".*(15) Scientific planning began in Pakistan with the First Five Year Plan (1955-60). Since 1955 three medium-term plans, each spreading over five years, had been launched when the country underwent some fundamental changes. The Fourth Five Year Plan (1970-75) had to be scrapped due to the separation of the former East Pakistan (now Bangladesh). The country then resorted to ad-hoc planning on an annual basis, which continued till 1978. Since July 1, 1978 the country has again returned to medium-term planning with the launching of the Fifth Five Year Plan (1978-83). The basic aim among other objectives of the whole planning process has been the acceleration of the rate of growth of gross national product. It is widely believed that any increase in income hinges upon capital accumulation, although other factors such as entrepreneurship and training of workers also play an important role. The resources for capital accumulation and development expenditures come from internal and/or external sources. In view of the inadequacy of internal finance, a significant proportion of the development plans in Pakistan has been financed through external resources. Foreign resources financed 34 per cent of the Third Plan (1965-70) development expenditure as against 40 per cent in the Second Plan (1960-65).(16) The familiar two-gap analysis(17) provides the rationale for this. Developing countries in the task of raising the level of investment suffer from deficiency of domestic savings as well as from that of

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(15) The First Five Year Plan. p.9.

(16) The Fourth Five Year Plan. p.40.

(17) For further discussion of two-gap analysis, see McKinnon,R.(1964), Chenery & Strout (1966) and Islam (1970).

foreign exchange. Domestic savings, even if they are adequate for meeting the demands of the target investment rate, cannot always be converted into foreign exchange. An expansion of domestic output requires fixed inputs of foreign imported capital equipment and, in many cases, imported raw materials; the exports which are predominantly agricultural and primary commodities cannot be expanded to meet the growing import needs. Foreign aid meets both deficiencies and thus, contributes to growth by enabling the recipient country to overcome the critical bottlenecks, i.e.inadequacy of savings and of foreign exchange. The extent to which foreign assistance has contributed to accelerating the rate of investment and thus the rate of growth in Pakistan, can be seen in Table 2.9.

The increase in domestic savings has not kept pace with the increase in investment: the need for foreign assistance has consequently been increasing over time. It may be seen from Table 2.9, that the share of foreign assistance, which made a small contribution till 1955 in the financing of total investment, rose sharply from about 14 per cent in 1954-55 to about 46 per cent in 1959-60, fell to about 28 per cent in 1969-70 but increased again to about 46 per cent in 1974-75. The main reason for the decline in the share of foreign assistance in the total investment in the late 1960's was the curtailment of foreign aid inflows from donor countries after the 1965 Indo-Pakistan conflict. The 1970's have witnessed events of an exceptional nature, both domestic and international. Among the domestic factors, weather conditions, combined with the need for restructuring of the economy, and on the international side, the energy crisis and the stagflation of the developed economies, have all contributed to Pakistan's increased dependence on foreign assistance.

The panacea for all development problems in Pakistan has been 'more aid', as remarked by Keith Griffin (1972,p.57). Up to the end of December 1978, foreign economic assistance worth $14.68 billion had been contracted - $3.95 billion in the form of grants and grant-like assistance, and the balance of $10.73 billion in the form of loans and credits repayable in foreign exchange. Disbursements of loans and credits up

TABLE 2.9

The Role of Foreign Assistance (Percentages)

	1949-50 (1)	1954-55 (2)	1959-60 (3)	1964-65 (4)	1969-70 (5)	1974-75 (6)
As a percentage of Gross investment.						
(i) Domestic Resources.	100.0	86.4	53.9	64.1	71.8	53.6
(ii) External Resources.	0.0	13.6	46.1	35.9	28.2	46.4

SOURCES: Cols. (1),(2),(3) from Third Five Year Plan, Table 8. p.8.
Cols. (4) & (5) from Fourth Five Year Plan, Table 2. p.42.
Col. (6) calculated from data in Table 10.3, p.148 and statistical Table 2.4, pp.15-17, Pakistan Economic Survey (1978-79)

to the end of December, 1978 amounted to $9.2 billion.[19] Pakistan had repaid $1.8 billion leaving a net debt (disbursed and outstanding) of $7.4 billion. This constituted nearly 40 per cent of Pakistan's GNP and is generally recognised to be a heavy debt liability.[20]

The increase in the volume of foreign assistance has been accompanied by a continuing shift in the composition of aid from grants and grant-like assistance to loans and credits repayable in foreign exchange, as shown in Table 2.10.

Table 2.10 shows the distribution of foreign assistance between grants and grant-like assistance and the loans repayable in foreign exchange. Grants and grant-like assistance, which constituted 70 per cent of the total aid during 1950 to 1955, and about 79 per cent during the First Plan Period (1955-60), declined to about 43 per cent during the Second Plan period (1960-65), to about 26 per cent during the Third Plan Period (1965-70) and to only about 9 per cent during the five year period of 1970 to 1975. It has varied from 11 to 17 per cent of the total foreign assistance in the subsequent years. Over the years, the proportion of grants has been declining, while that of loans has been rising. Keith Griffin (1965) suspected that once Pakistan's alignment with the West, in acceptance of U.S. military aid and its membership in SEATO and CENTO were assured, the composition of foreign assistance changed, i.e. the proportion of loans in total foreign assistance increased and that of grants decreased. Whether this suspicion is justified or not, the fact remains that the terms and conditions of loans for Pakistan have been hardening since the early sixties, and the proportion of 'tied aid' has been an increasing part of the total foreign assistance. Aid may be tied by both source and end-use: the recipient country may not have the freedom to apply the aid to import from sources other than the donor country, and the use of aid may be

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(19) Inclusive of debt disbursed (but not repaid) in former East Pakistan (now Bangladesh) amounting to $64.5 million, which has been/likely to be taken off.

(20) Pakistan Economic Survey (1978-79), p.145.

TABLE 2.10

Commitments of External Assistance (Million, U.S. $)

PERIOD	TOTAL ASSISTANCE	GRANTS & GRANT-LIKE ASSISTANCE		LOANS REPAYABLE IN FOREIGN EXCHANGE	
	Amount	Amount	Per cent of Total	Amount	Percent of Total
(1)	(2)	(3)	(4)	(5)	(6)
Pre-1st Plan (1950-55)	337	236	70.0	101	30.0
First Plan (1955-60)	1073	852	79.4	221	20.6
Second Plan (1960-65)	2757	1198	43.5	1559	56.5
Third Plan (1965-70)	2746	704	25.6	2042	74.4
Five Years (1970-75)	3994	375	9.4	3619	90.6
1975-76	922	102	11.1	820	88.9
1976-77	1114	187	16.8	927	83.2
1977-78	979	151	15.4	828	84.6
GRAND TOTAL	14680	3951	26.9	10730	73.1

SOURCE: Based on Table 10.1, Pakistan Economic Survey (1978-79), p.146.

restricted via specification of commodities or projects. Aid-tying reduces its real value to the recipient country. The direct costs of tying aid can be estimated as the difference between the cost of importing from the tied source and the cost of importing the same commodities from the cheapest source. Mahbub-ul-Haq (1967) estimated that purchasing all United States aid financed commodities in the United States resulted in a 17 per cent excess cost to Pakistan, as compared to world market prices for the year 1965. In addition to the direct costs incurred, tying of aid may have significant indirect costs for the recipient country by causing a distortion of development priorities. The distortion in the allocation of investment resources may be caused by biasing the recipient's development programme toward those projects that have a high component of the special import content allowed-for under the conditions of the tied aid. The import-intensive industrialization of the borrowing country may become permanently dependent upon a high-cost supplier for spare parts, replacements and ancillary equipment. Tied loans, furthermore, lead to higher debt repayment obligations and a greater debt burden.

2.4.1 Debt servicing.

Foreign economic assistance to Pakistan started in 1950. Initially the burden of debt servicing was relatively small because of the grace periods of a number of loans. As the grace periods of loans and credits contracted earlier expired, the debt service liability increased sharply after 1965. The ratio of debt service payments to the country's foreign exchange earnings for some selected years is shown in Table 2.11.

It may be seen from Table 2.11 that debt servicing as a ratio of Pakistan's foreign exchange earnings, which was 3.6 per cent in 1960-61, rose sharply to 9.9 per cent in 1964-65, and from then on by an average of 20 per cent during the seventies. In relation to the country's export earnings, debt servicing on external debts is very high from all international standards. Expressed as a ratio to export earnings the debt burden stood at 4.2, 11.9, 25.8 and 23.1 per cent

TABLE 2.11

Debt Service Ratio

YEAR	Foreign Exchange Earnings (Million U.S $)	Debt Service (Million US $)	Debt Service Ratio to Foreign Exchange Earnings = [(3)÷(2)x100]
(1)	(2)	(3)	(4)
1960-61	476	17	3.6
1964-65	629	62	9.9
1969-70	901	176	19.5
1974-75	1519	259	17.1
1975-76	1813	407	22.4
1976-77	2028	420	20.7

NOTES:-

(i) Debt service figures are net of debt relief/rescheduling, and include debt servicing of short-term credits of less than one year's maturity.

(ii) Figures from 1960-61 to 1969-70 are for all Pakistan, including former East Pakistan (now Bangladesh).

SOURCES: (i) 1960-61 to 1969-70 from Pakistan Economic Survey (1970-71) Table 74, p.138.

(ii) 1974-75 and onwards from Pakistan Economic Survey (1978-79) Table 10.2, p.148.

in the years 1960-61, 1964-65, 1969-70 and 1974-75 respectively.[21] With limited debt relief provided during the year 1978-79, this ratio was expected to go up to 40 per cent.[22]

The rapid increase in debt service obligations has principally resulted from two basic factors:

(i) a sharp and continuing shift in the composition of foreign assistance from grants and grant-type assistance to loans and credits requiring service in foreign currency, and

(ii) A decline in the share of loans carrying concessional terms and as a result contracting of loans and credits on hard terms, particularly after 1965.

Such a sharp increase in debt service payments adversely affected net aid inflows to Pakistan. An increasingly higher percentage of gross aid had to be returned to the lending countries/agencies in the form of repayment of principal and interest dues. Net transfer of resources from abroad which constituted 91 per cent of gross disbursements in 1964-65 dropped to 69 per cent in 1969-70 and to 60 per cent in 1973-74.[23]

It may be noted here that the increase of the debt service ratio to foreign exchange earnings or to export earnings is related not only to the terms and conditions of borrowing, but also to the performance of the export sector of the country. The rapid increase in debt service ratios has occurred in spite of the comparatively rapid rate of growth of Pakistan's exports and the considerable debt rescheduling arrangements made since 1971. The debt relief agreements were made with Consortium[24] and non-Consortium countries after the separation of former East Pakistan (now Bangladesh). These agreements rescheduled the debt servicing ranging between 55 to 71 per cent falling due during the period of 1971 to 1978.

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(21) Pakistan Economic Survey (1974-75), p.132.

(22) Pakistan Economic Survey (1978-79), p.148.

(23) Pakistan Economic Survey (1974-75), p.133.

(24) The Aid-to-Pakistan Consortium includes Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, U.K., U.S.A., I.B.R.D. and I.D.A.

2.5 The Need to Expand Exports.

The discussion above regarding the performance of the Pakistani economy indicates that in an effort to achieve higher growth rates the country has evolved a system, which has become heavily dependent on foreign assistance. In general, the deficits in the balance of payments have been increasing and the gap between exports and imports has been widening over time. The persistent deficits in the balance of payments means that the country has been living beyond its means, which is a danger signal. Continued reliance on foreign borrowing has resulted in heavy debts servicing obligations, which are growing at a rate faster than the rate of growth of exports. This means that a growing proportion of current earnings of foreign exchange will be required to service foreign debts or more loans will have to be contracted merely to meet the debt repayment obligations. The implication is that an economic system which has been created and sustained with the help of foreign assistance is not viable. The adverse effects of this situation on the economy can only be avoided if:-

(i) more foreign assistance is available and the trend in foreign assistance is reversed in favour of more grants, and

(ii) export earnings and/or import substitution grow at a phenomenal rate.

As regards (i), the whole issue of foreign assistance is at the cross-roads. Both developed and developing countries are getting frustrated by the consequences of aid to the LDC's. Doubts have grown in the developed countries, as to the effectiveness of aid in promoting economic development, the wastes and inefficiencies involved in the use of aid, and the dangers of getting involved, through extensive foreign-aid operations, in military or diplomatic conflicts. Foreign aid is under attack on the grounds that it strengthens the hands of the political groups who are in power in the poor countries and who often inhibit the socio-political changes in attitudes and institutions necessary for economic development. The dis-

enchantment on the part of the recipient countries is, on the other hand, associated with the inadequacy of aid, the stop-go nature of its flow in many cases, and the intrusion of non-economic considerations governing the allocation of aid amongst the recipient countries. Now that most of the donor countries are increasingly concerned with their domestic problems, the chances of the avilability of foreign assistance in the form of grants are very limited.

As regards (ii), import substitution (i.e. domestic production of those goods which would otherwise have been imported) was a popular strategy of economic development in the 1950's. By the mid-sixties the developing countries became increasingly disenchanted with those policies as they exacerbated the problems (particularly that of the balance of payments) which they were designed to cure. The evidence of the historical path of industrialization indicates that in the developing countries import substitution initially takes place in the consumer goods'industries. This is because in the early stages of development most of the imports consist of consumer goods, technology required for many consumer goods is relatively simple, capital requirements are not large and existing domestic demand is adequate relative to the economic size of an industry. The instruments, like tariffs and import licensing etc. used to implement this policy, are usually such that they impose higher restrictions on the imports of consumer goods than on those of raw materials and capital goods. Easier imports of capital goods and raw materials give rise to capital intensive processes of production using imported raw materials. Paradoxically enough, the development of this sort of production structure increases the economy's dependence on imports of raw materials, parts and components. In addition, if the policies of import substitution succeed in raising real incomes, they would tend to increase the demand for other consumer goods. However, an import-substitution policy, directed primarily towards consumer goods industries, quickly reaches its limit as set by the protected domestic market. It then gradually extends in successive steps to intermediate and capital goods for which the newly developed domestic consumer goods industries provide a market. As the size of the domestic market is frequently inadequate for the production of intermediate and capital goods on an efficient scale, the need for finding

export markets arises.[25] Moreover, excessive import-substitution is likely to result in a misallocation of resources and technical inefficiencies. High rates of protection might encourage the setting-up of those industries which lack comparative advantage. Import-substitution without corresponding export promotion may prove unsuccessful in terms of sustained growth or the removal of severe balance of payments constraints.

Many economists believe that there is a significant relationship between a country's exports and its economic growth, and have viewed the growth of exports as a catalyst for economic development. There are logical grounds for believing that a rise in exports stimulates an increase in aggregate economic growth, but essentially the relationship is one of interdependence. There are many direct and indirect benefits from a high rate of export growth, which help in promoting general economic growth:-

(i) An increasing level of exports provides a country with the wherewithal to step up its level of imports, especially of capital goods, which are important in contributing to economic growth. The country is enabled to take greater advantage of the international division of labour, procuring desired goods from abroad at considerable savings in terms of inputs of productive factors.

(ii) Export development tends to concentrate investment in the most efficient sectors of the economy - those in which the country enjoys a comparative advantage. Specialization in the products in which the country has a comparative advantage increases productivity and results in the more efficient utilization of productive factors.

(iii) The country gains from economies of scale, since the international market added to the domestic market obviously permits larger-scale operations than does the domestic market alone.

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(25) For further discussion of import sub. vs. export promotion, see Power (1966); Schydlowsky (1967); Hirschman (1968), Streeten (1973). Two standard works in this area are the studies made by the O.E.C.D. (1970) and the N.B.E.R. (1978).

(iv) The necessity of remaining competitive in international markets tends to maintain pressure on the export industries to keep costs low and encourages them constantly to strive for more efficient methods of production. The competitive pressures also tend to lead to improvements in the quality of the export product, and, in general to inhibit the establishment of inefficient industries.

A growing export sector also encourages an increased flow of technological and market innovations as well as managerial skills. Under the pressure of competition and the desire to continue expanding foreign sales, suitable foreign techniques and methods are imported to further improve productivity and quality.

(v) Expanding exports encourage investment in ancillary industries which would supply and service the operations of the main export industry.

(vi) Lastly, a growing export sector serves as an indirect stimulus to increased consumption. As consumers become gradually aware of the foreign consumer products that they can obtain because of expanded export earnings, there is an increased desire to acquire these products. Thus there is a kind of 'Demonstration Effect'.

All these factors tend to reinforce each other stimulating further expansion of exports, investment and consumption. The result is a substantial rate of growth in real gross national product. Emery (1967) and Oyejide (1975) have tried to estimate quantitatively the causal relationship between export growth and the growth of GNP, and have found a significant positive relationship between the two variables.[26] Pakistan needs to expand its exports in order to overcome the difficulties of the balance of payments, to fulfil the debt repayment obligations and to achieve a rapid rate of growth in GNP.

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(26) Emergy, (1967), using the average of annual rates of change in real per capita GNP and average rates of export growth for the period of 1953-63 generally, in respect of 50 countries, concluded that a country increases its per capita real GNP about 1 per cent for every 2½ per cent boost in its exports. p.478.
Oyejide, (1975), using average growth rates of GDP and the average of exports as proportion of GDP over the period of 1960 to 1969 for 43 African countries concluded that a unit change in exports leads to 0.13 change in GDP. p.185.

2.6 Behaviour and Structure of Exports.

A brief description of the behaviour of Pakistan's exports during the period of 1960-61 to 1977-78 is given below and the structure of export earnings is also examined.

TABLE 2.12

Value of exports in some selected years and the rates of growth of exports.

YEAR	VALUE OF EXPORTS (Million Rs)	
	Unadjusted	Adjusted[a]
1960-61	540.2	1123.5
1965-66	1203.6	2503.3
1970-71	1998.4	4156.4
1973-74	10161.2	10161.2
1975-76	11252.9	11252.9
1977-78	12980.4	12980.4

Annual compound rates of growth of exports (Percentages)

PERIOD	For unadjusted data.	For adjusted data
1960-61 to 1965-66	17.38	17.38
1965-66 to 1970-71	10.67	10.67
1970-71 to 1975-76	41.29	22.04
1970-71 to 1973-74	71.96	34.71
1973-74 to 1977-78	6.31	6.31
1960-61 to 1970-71	13.98	13.98
1970-71 to 1977-78	30.64	17.67
1960-61 to 1977-78	20.57	15.48

NOTE: (a) Pakistan's rate of exchange has been:-

Prior to May, 1972 One U.S. $ = Rs 4.76

From May '72 to Feb.'73 One U.S. $ = Rs 11.00

After Feb. 1973 One U.S. $ = Rs 9.90

After the change in par value of the rupee from May, 1972 onwards, the value of exports expressed in rupees, would be inflated by the extent of change in the currency equivalent, even if it would have remained the same in dollar terms. To make the figures comparable, the value of exports prior to 1972 have been adjusted upwards to the extent of change in the currency equivalent, i.e. adjusted value $= \frac{\text{unadjusted value}}{\text{official exch.rate}} \times 9.90$, or as an example for the year 1960-61 adjusted value $= \frac{540.2}{4.76} \times 9.90$. Otherwise, the value of exports expressed in dollars for the whole period, would also become comparable. However, these adjustments do not take into account any changes in per value of the dollar itself.

SOURCE: As for Table 2.6

Table 2.12 presents data on the value of exports for some selected years, from which it may be seen that the export earnings were almost 4 times higher in 1970-71 compared to those in 1960-61, while between 1970-71 and 1977-78 the increase was nearly three-fold. Pakistan's earnings from commodity exports have increased at a compound rate of about 15.5 per cent per annum during the period of 1960-61 to 1977-78. During the decade of the sixties the rate of growth of exports had been consistently above 10 per cent per annum, although it was higher during the first five years compared to the last five years. More precisely, exports grew at about 17.4 per cent annually during 1960-61 to 1965-66, while during the later five years of 1965-66 to 1970-71 this rate fell to about 10.7 per cent. The pattern of export growth during the seventies has been haphazard. The rate of expansion of exports was phenomenally high during 1970-71 to 1973-74, being about 34.7 per cent annually, while from 1973-74 to 1977-78 they rose at a modest rate of about 6.3 per cent per annum. The extraordinarily high rate of export growth during the early seventies may be explained by two factors. Firstly, the separation of former East Pakistan (now Bangladesh) from the rest of the country made available the exportable surplus, which was diverted to the international markets. Secondly, the develuation of the Pakistani rupee in May, 1972 by more than 57 per cent facilitated the disposal of this exportable surplus in the foreign markets. However, the favourable effects of the devaluation were short-lived. The oil price hike of 1973 and the resulting recessionary conditions in the developed economies have affected the exports from Pakistan adversely in recent years.

Another feature of Pakistan's exports may be seen from Table 2.13, which presents annual data on the rupee and dollar value of Pakistan's exports, Pakistan's share of world exports and the share of Pakistan's exports in GDP for the period of 1960-61 to 1977-78. Pakistan's share of the world market rose from less than 0.1 per cent in 1960-61 to about 0.17 per cent in 1962-63. Although there had been year-to-year fluctuations in the share of Pakistan's exports to world exports after 1962-63, on the average, this share increased from 0.136 per cent for the 1960-61 to 1964-65

TABLE 2.13

Pakistan's exports as a share of GDP and world exports.

YEAR	Pakistan's exports (Million Rs) (Current Prices)	Pakistan's GDP at current factor costs. (Million Rs)	Exports as a percentage of GDP	Pakistan's exports (Million U.S. $)	World Exports (Million U.S. dollars)	Pakistan's exports as a percentage of world exports
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1960-61	540.2	18359	2.94	113.5	114600	0.099
61-62	542.9	19139	1.84	114.1	119800	0.095
62-63	998.1	20489	4.87	209.7	125200	0.167
63-64	1075.0	22945	4.69	225.8	137400	0.164
64-65	1139.6	26202	4.35	239.4	154000	0.155
65-66	1203.6	28969	4.15	252.9	167100	0.151
66-67	1297.3	32622	3.98	272.5	183600	0.148
67-68	1644.8	35542	4.63	345.6	192700	0.179
68-69	1699.9	37985	4.48	357.1	215200	0.166
69-70	1608.6	43345	3.71	337.9	246600	0.137
70-71	1998.4	45702	4.37	419.8	283700	0.148
71-72	3371.4	49160	6.86	608.6	317400	0.192
72-73	8551.2	60795	14.07	807.5	376800	0.214
73-74	10161.2	80441	12.63	1026.4	524200	0.196
74-75	10286.3	104640	9.83	1039.0	773300	0.134
75-76	11252.9	121423	9.27	1136.7	796500	0.143
76-77	11293.9	135686	8.32	1140.8	906800	0.126
77-78	12980.4	156562	8.29	1311.2	1029900	0.127

SOURCE: Col.2: Pakistan Economic Survey (1978-79), Statistical Table 9.1, p.99.

Col.3: Pakistan Economic Survey (1978-79), Statistical Table 2.2, pp.12 - 13.

Col.5: Calculated from Col.2 by dividing the rupee figures by relevant rate of exchange, i.e. up to 1970-71 one U.S. $ = Rs 4.76, for 1971-72, one U.S.$ =Rs 5.54; for 1972-73, one U.S.$ = Rs. 10.59, and from 1973-74 onwards one U.S.$ = Rs 9.90.

Col.6: IMF, "International Financial Statistics" various issues.

(a): Data on world exports is for calender years, i.e. in this table world exports for 1960-61 stand for exports in 1960.

period to 0.156 per cent for the period of 1965-66 to 1969-70 - an increase of nearly 15 per cent. This may be regarded as an indication of the success of Pakistan's efforts to break through the world market. Pakistan's share of world exports increased rapidly in the early seventies for the reasons mentioned above and reached an all-time high of 0.214 per cent in 1972-73. Since then it has constantly been on the decline and plunged to 0.126 per cent in 1976-77, an all-time low after 1962-63.

An almost similar pattern is discernable for Pakistan's exports as a percentage of her GDP. The share of exports to the GDP rose from 2.94 per cent in 1960-61 to 4.87 per cent in 1962-63, which was never reattained until 1971-72. However, on average, the ratio of exports to GDP increased from 3.94 per cent in the 1960-61 to 1964-65 period to 4.19 per cent for the period 1965-66 to 1969-70 - an increase of about 6.4 per cent. The highest ratio of exports to GDP, 14.07 per cent, was achieved in 1972-73, since when it has been declining continuously reaching 8.29 per cent in 1977-78.

2.6.1 Composition of exports

The structure of Pakistan's exports by broad economic categories, i.e. primary vs. manufactured commodities is given in Table 2.14. This table gives evidence of the changes in the composition of Pakistan's exports. Whereas most of the foreign exchange earnings came from the export of primary commodities in the fifties, the share of this category in total exports has been diminishing over time. The share of primary commodities in total foreign exchange earnings decreased from about 91 per cent in 1955 to about 41 per cent in 1969-70. This has been primarily because of the expansion of the manufacturing sector within the country and concerted efforts of the government through different export incentive schemes for the expansion of manufactured exports. While on the one hand, expanding manufacturing industries consumed an increasing proportion of primary commodities within the country leaving less of those available for export, on the other hand, the subsidies to the exports of manufactured products led to an increase in the share of manufactured goods in the total exports.

TABLE 2.14

Economic Classification of Exports

YEAR	Total exports (Million Rs)	PRIMARY COMMODITIES[a]		MANUFACTURES[b]	
		Value (Million Rs)	Percentage share in total	Value (Million Rs)	Percentage share in total
1955[c]	630	575	91.3	55	8.7
1959[c]	531	303	57.1	228	42.9
1964-65	1140	683	59.9	457	40.1
1969-70	1609	652	40.5	957	59.5
1974-75	10286	5012	48.7	5274	51.3
1977-78	12980	5787	44.6	7193	55.4

NOTES: (a) PSTC Sections (0 + 1 + 2 + 3)

(b) PSTC Sections (5 + 6 + 7 + 8 + 9)

(c) data for calender years.

SOURCE: Data for 1955 and 1959 from G.C.Hufbauer (1971). Appendix A, Table 3.1, pp.94-95; for other years 'Foreign Trade Statistics of Pakistan',various issues, given in Appendix A.

The commodity composition within these broad categories has also been changing over time. The contribution of some major commodities to total foreign exchange earnings in some selected years since 1960-61 is given in Table 2.15.

The data on some commodities' percentage shares in total export earnings given in Table 2.15 presents some noteworthy trends. The main primary commodities exported from Pakistan have been raw cotton, raw wool, hides and skins, fish and rice. While the percentage shares of raw cotton, raw wool and hides and skins in the total export earnings have been decreasing over time, the rice group has achieved pride of place in the primary commodities category. The percentage share of raw cotton had creased from 64.4 per cent in 1955[(27)] to 27.7 per cent in 1960-61, which dropped further to about 8.8 per cent in 1975-76. The same trend is observable for raw wool and hides and skins whose shares declined from 14.1 and 5.0 per cent in 1960-61 to 0.66 and 0.25 per cent in 1975-76 respectively. The export earnings from rice, which were about 9 per cent of the total foreign exchange earnings in 1960-61, increased to about 22 per cent in 1975-76. The main reason for the decline in the percentage contribution to total export earnings from raw cotton, raw wool and hides and skins has been that instead of exporting these commodities in their raw form, they have been exported in the manufactured form. As a result, the share of yarn in the total exports rose from about 12.5 per cent in 1960-61 to about 17.9 per cent in 1970-71, that of cotton cloth from about 8.3 per cent to about 15.6 per cent, and of wearing apparel from about 0.21 per cent to about 1.6 per cent during the same period. The same is true for the manufactures of wool, especially carpets - the share of which in the total exports increased from about 1.7 per cent in 1960-61 to 6.9 per cent in 1976-76.

In spite of this shift in the structure of exports, Pakistan's commodity export earnings have been dominated by the cotton group over the past two decades, which has contributed nearly 50 per cent, on average, to the total export

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(27) Computed from data in Hufbauer, (1971).

TABLE 2.15:

Percentage shares of some commodities in total export earnings.

PSTC Code	Commodities	1960-61	1965-66	1969-70	1975-76
031	Fish: Fresh or simply preserved.	3.46	3.79	2.65	2.06
032	Fish & Fish prep. canned.	0.06	0.32	0.42	0.42
042	Rice	9.07	11.01	8.65	22.03
05	Fruit & Vegetables.	0.84	0.75	0.73	1.08
12	Tobacco: Raw & Manufactured.	0.01	0.06	0.70	1.43
211	Hides & Skins (except fur skins)	5.04	1.13	0.83	0.25
262	Wool & other animal hair.	14.10	5.97	1.21	0.66
263	Raw cotton & Cotton waste.	27.71	24.80	14.28	8.83
5	Chemicals	0.56	2.16	1.05	1.26
611	Leather	1.23	6.22	5.36	5.30
651	Textile yarn and Thread.	12.49	8.56	17.89	13.02
652	Cotton fabrics	8.26	12.29	15.58	12.08
653+654+655	Other textiles.	0.32	1.32	1.61	0.48
656	Articles of textiles (other than clothing).	0.30	0.91	3.13	5.32
657	Floor covering & tapestries.	1.72	1.93	3.34	6.90
71	Non-electric machinery.	0.88	1.08	0.36	0.51
72	Electric Machinery etc.	0.15	0.52	0.41	0.20
841	Clothing.	0.21	0.77	1.55	3.43
851	Footwear.	0.56	0.68	1.47	0.59
894	Sports goods.	2.22	1.60	1.66	1.75
	'All others'	10.80	14.13	17.22	12.40

SOURCE: Computed from data compiled from "Foreign Trade Stats of Pakistan", various issues, (Appendix A)

earnings. If we add to this the rice group and the hides and skins, leather and leather manufactures group, this ratio jumps up to nearly 70 per cent on the average. This does not mean, however, that no diversification in the structure of exports has taken place during this period. An important beginning has been made in the export of some engineering goods. A start has been made in the export of electric and non-electric machinery and chemicals. The increase in the ratio of 'all others' group from 10.8 per cent in 1960-61 to about 17.2 percent in 1970-71 also points to the diversification in exports.

2.6.2 Geographic distribution of exports.

Table 2.16 gives data on the value and percentage share of exports going to different regions, trade blocks and countries.

Some important trends may be observed from the data in Table 2.16 on the volume and share of Pakistan's exports going to different countries. While the U.S.A. and U.K. alone purchased nearly one third of Pakistan's exports in 1960-61, this share has diminished over time and was only about 12 per cent of the total exports in 1977-78. However, America and Western Europe have remained Pakistan's major trading partners throughout the past two decades, and more than one-third of Pakistan's exports were destined for these regions during this period. EEC countries, on the average, have provided about 20 per cent of the market for Pakistan's exports. A significant shift in the direction of Pakistan's exports may be noted from the fact that the share of these exports going to developed market economies namely America, Western Europe and Japan has been continuously declining during the period of 1960-61 to 1977-78. It declined from about 50.7 per cent in 1960-61 to about 38 per cent in 1970-71, though it improved marginally to be about 40 per cent in 1977-78. The reason for that might be that the exports from developing countries faced harder competition in the developed markets and/or that the developed countries have tried to keep them out of their markets through tariffs and other restrictive policies.

Two other features of Pakistan's exports are noticeable, namely, the share of these exports going to Eastern Europe

TABLE 2.16

Geographic distribution of Pakistan's exports (value in million Rs and percentages of total exports).

Year / Regions/Trade blocs/countries.	1960-61		1965-66		1970-71		1975-76		1977-78	
	Value	% age	Value	% age	Value	% age	Value	% age	Value	% age
1	2	3	4	5	6	7	8	9	10	11
GRAND TOTAL	540.2	100.00	1203.6	100.00	1998.4	100.0	11252.9	100.00	12980.4	100.00
1. American Region of which:	86.4	15.99	139.9	11.62	145.2	7.27	801.0	7.12	879.7	6.78
U.S.A.	84.4	15.62	132.7	11.03	126.5	6.33	645.6	5.74	656.2	5.06
Canada	1.7	0.31	5.7	0.47	14.5	0.73	88.3	0.78	73.6	0.57
2. Western Europe.	119.0	22.03	295.9	24.58	416.0	20.82	2951.8	26.23	3169.6	24.42
(a) E.C.M.	108.3*	20.05	279.7*	23.24	379.9*	19.01	2288.3	20.34	2679.2	20.64
France	8.1	1.50	30.8	2.56	25.1	1.26	228.6	2.03	252.9	1.95
West Germany	9.8	1.81	29.9	2.48	61.7	3.09	597.6	5.31	732.0	5.64
Italy	4.9	0.91	21.4	1.78	63.5	3.18	430.9	3.83	377.4	2.91
Netherlands	4.3	0.80	18.0	1.50	22.5	1.13	150.5	1.34	232.9	1.79
U.K.	75.4	13.96	153.3	12.74	188.3	9.42	710.9	6.32	860.8	6.63
Denmark	1.4	0.26	3.9	0.32	4.6	0.23	75.9	0.67	118.8	0.92
Belgium-Luxemburg-Irish Republic.	4.3	0.80	22.4	1.86	14.2	0.71	94.0	0.84	104.5	0.81
(b) Western Europe excluding E.C.M. of which:	10.7	1.98	16.2	1.35	36.1	1.81	663.5	5.90	490.4	3.78
Sweden	5.8	1.07	5.1	0.42	1.0	0.05	92.9	0.83	65.4	0.50
Switzerland	2.2	0.41	5.5	0.46	15.4	0.77	146.0	1.30	180.2	1.39
Spain	0.9	0.17	2.4	0.20	2.4	0.12	275.1	2.44	162.1	1.25

Continued.....

TABLE 2.16, contd....

Geographic distribution of Pakistan's exports (value in million Rs and percentages of total exports).

Regions/Trade blocs/countries. \ Year	1960-61		1965-66		1970-71		1975-76		1977-78	
	Value	% age	Value	% age	Value	% age	Value	% age	Value	% age
1	2	3	4	5	6	7	8	9	10	11
3. Eastern Europe including U.S.S.R of which:	0.7	0.13	95.9	7.97	381.7	19.10	591.0	5.25	579.8	4.47
U.S.S.R	--	--	59.8	4.97	162.0	8.11	194.5	1.73	273.2	2.10
Bulgaria	—	—	1.0	0.08	27.1	1.36	20.6	0.18	86.3	0.66
Czechoslovakia	--	--	--	--	34.1	1.71	17.2	0.15	59.8	0.46
Hungary	--	--	--	--	24.7	1.24	39.9	0.35	59.1	0.40
Poland	--	--	22.1	1.84	78.6	3.93	119.1	1.06	24.3	0.19
Romania	--	--	--	--	17.8	0.89	105.9	0.94	61.5	0.47
Yugloslavia	--	--	12.7	1.06	37.3	1.87	63.5	0.56	11.6	0.09
4. Middle East.	44.0	8.15	147.3	12.24	281.6	14.09	3016.0	26.80	3438.7	26.49
(a) R.D.C.	3.3	0.61	13.2	1.10	20.3	1.02	258.6	2.30	768.4	5.92
Turkey.	--	--	0.6	0.05	1.5	0.08	82.4	0.73	243.9	1.88
Iran	3.2	0.59	12.6	1.05	18.8	0.94	176.2	1.57	524.5	4.04
(b) Middle East Excl.R.C.D. of which:	40.7	7.53	134.1	11.14	261.3	13.08	2757.4	24.50	2670.3	20.57
Abu Dhabi	9.7	1.80	12.1	1.01	9.4	0.47	113.8	1.01	23.7	0.18
Bahrain	6.7	1.24	21.4	1.78	20.4	1.02	136.9	1.22	75.7	0.58
Dubai	--	--	N.A.	N.A.	29.7	1.49	252.7	2.25	212.3	1.64
Iraq	3.5	0.65	6.8	0.56	53.7	2.69	584.8	5.20	652.1	5.02
Kuwait	8.0	1.48	30.6	2.54	42.7	2.14	380.1	3.38	277.6	2.14
Saudi Arabia	10.9	2.02	20.4	1.69	29.3	1.47	796.4	7.08	426.0	3.28

Continued.....

TABLE 2.16 (Continued)

Geographic distribution of Pakistan's exports (value in million Rs and percentages of total exports).

Year / Regions/Trade blocs/countries.	1960-61		1965-66		1970-71		1975-76		1977-78	
	Value	% age	Value	% age	Value	% age	Value	% age	Value	% age
1	2	3	4	5	6	7	8	9	10	11
4(b) contd.....										
Lybia	--	--	0.9	0.07	4.7	0.24	84.6	0.75	87.3	0.67
U.A.R.(Egypt)	--	--	0.5	0.04	0.3	0.02	19.6	0.17	34.7	0.27
5. African Countries other than Middle East of which:	18.3	3.39	33.8	2.81	44.9	2.25	352.6	3.13	721.9	5.56
Kenya	4.2	0.78	17.0	1.41	13.4	0.67	36.4	0.32	19.3	0.15
Mauritius	--	--	3.4	0.28	2.9	0.15	16.2	0.14	19.5	0.15
Nigeria	--	--	3.3	0.27	3.7	0.19	20.9	0.19	8.6	0.07
Tanzania	--	--	1.8	0.15	4.7	0.24	11.6	0.10	23.6	0.18
Algeria	--	--	--	--	0.7	0.04	17.2	0.15	44.8	0.35
6. Asian Countries excl.Middle East. of which:	266.5	49.33	477.5	39.67	697.8	34.92	3462.6	30.77	4111.6	31.68
Afghanistan	20.5	3.79	47.3	3.93	23.3	1.17	95.2	0.85	207.0	1.59
China	46.5	8.61	72.6	6.03	22.2	1.11	175.5	1.56	367.5	2.83
Hong Kong	57.2	10.59	105.9	8.80	246.5	12.33	1240.0	11.02	794.2	6.12
India	6.9	1.28	2.4	1.99	—	—	149.5	1.33	347.3	2.68
Indonesia	--	--	68.2	5.67	30.3	1.52	132.6	1.18	310.2	2.39
Japan	68.6	12.70	101.0	8.39	194.6	9.74	785.9	6.98	1107.9	8.54
Malaysia	3.3	0.61	13.3	1.11	10.5	0.53	18.6	0.17	11.8	0.09
Singapore	5.0	0.93	7.7	0.64	60.8	3.04	152.4	1.35	250.1	1.93
Sri Lanka	23.6	4.37	39.8	3.31	57.9	2.90	360.2	3.20	232.0	1.79
Burma	23.6	4.37	13.0	1.08	9.0	0.45	24.2	0.22	30.7	0.24
Bangladesh	—	—	—	—	—	—	220.0	1.96	259.8	2.00

Continued.....

TABLE 2.16 (continued..) (d)

Geographic distribution of Pakistan's exports (value in million Rs and percentages of total exports).

Regions/Trade blocs/countries. \ Year	1960-61		1965-66		1970-71		1975-76		1977-78	
	Value	% age	Value	% age	Value	% age	Value	% age	Value	% age
1	2	3	4	5	6	7	8	9	10	11
7. Oceania	5.3	0.98	14.0	1.16	31.4	1.57	78.0	0.69	79.2	0.61
of which:										
Australia	4.9	0.91	12.7	1.06	23.3	1.17	68.5	0.61	69.8	0.54
New Zealand	--	--	1.1	0.09	4.6	0.28	6.8	0.61	5.8	0.04

Notes:- * including U.K., Denmark and Irish Republic.

-- means less than Rs 0.5 million.

— means NIL

Totals may not always add to 100.00 due to rounding.

SOURCE: Based on data in "Foreign Trade Statistics of Pakistan", various issues.

including U.S.S.R. and that going to the Middle East countries. The share of exports going to the East European countries including U.S.S.R, which was negligible in 1960-61, soared up to about 19 per cent in 1970-71, although it declined again in the seventies, falling to about 4.5 per cent in 1977-78. Most of this trade was barter and has been on the basis of bilateral trade agreements.

The share of exports destined for the Middle Eastern countries has been rising continuously throughout the period of 1960-61 to 1977-78. It has risen from only about 8 per cent in 1960-61 to about 27 per cent in the seventies. This may be explained partly by Pakistan's efforts at increasing co-operation with the Islamic countries, which have been made vigorously in the seventies. Moreover, since July 1964, Iran, Pakistan and Turkey have been trying to expand their intra-regional trade through the Regional Co-operation for Development (R.C.D), although with limited success. Among other Asian countries, Hong Kong has been an important customer for Pakistan's exports. There again the share of Pakistan's exports going to Hong Kong has been falling in the seventies. It fell from about 12.3 per cent in 1970-71 to about 6.1 per cent in 1977-78. The share of exports going to other individual countries and the changes in that over time are given in Table 2.16, which may be seen from there.

CHAPTER III

EVOLUTION AND STRUCTURE OF PROTECTION IN PAKISTAN.

Pakistan like many other developing countries has used commercial policy in order to achieve certain specific objectives which are diverse and numerous. They include fuller utlization of industrial capacity; promotion of exports; progressive substitution of imports by local products; improving supplies through commercial channels of such goods of industrial and consumer interest as are not produced in the country or are in short supply; stabilization of prices at reasonable levels; and to obtain necessary goods for economic development.[1] The instruments employed for the attainment of these objectives have been a combination of foreign exchange controls, import licensing restrictions, tariffs and export promotion policies. The exchange control policy has been used to restrict the demand for foreign exchange to its supply from various sources (trade, aid etc.) as well as to allocate the available exchange between public and private uses. Import licensing, since 1952, has been the basic procedure for rationing limited supplies of foreign exchange. In the earlier years after Independence, import controls were largely applied as an instrument of conservation of foreign exchange, rather than as a means of 'resource allocation' as understood in the terminology of economic development. Later on, however, import controls have come to be regarded as tools of economic planning and of resource allocation for achieveing the set objectives defined in the development plans. Tariff policy, besides its effects on resource allocation, has been a major source of government revenue. Finally, specific measures have been formulated to stimulate exports in the context of an over-valued exchange rate. In order to put the Pakistan's commercial policy in proper perspective, we start by examining the variou arguments put forth for protection in the developing countries.

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(1) Pakistan Economic Survey (1969-70), p.113, and
Pakistan Economic Survey (1974-75), p.119.

3.1 Free Trade vs. Protection.

The gains from free trade have been much discussed by economists on the grounds of the law of comparative costs. In the context of a two-country, two-commodity model, whenever the relative domestic costs of production of the two goods in one country differ from the relative domestic costs of production in the other country, there is some potential economic gain if both the countries specialise in the production of the commodity in which they have a comparative advantage, and trade it with the other country. Extended to the multi-commodity, multi-country case, this means that free trade greatly enhances the potential real national products of all nations and makes possible higher standards of living all over the globe. The classical case for free trade, which dominated economic thought in Britain for the whole of the 19th century, was developed simultaneously with the case for Laissez-faire. Gradually, more and more evidence has accumulated supporting the view that Laissez-faire may not lead to an optimum for a country. Perfect competition does not necessarily rule, there may not be full employment, the income distribution that is yielded by the Laissez-faire situation may not be a desirable or just one, necessary structural changes may not take place and so on. Therefore, many qualifications to the case for Laissez-faire have been made, and many reasons for the government to intervene in the economy have been put forward - to maintain full employment, to bring about a desirable distribution of income, to adjust resource allocation and consumption patterns in the light of external economies and diseconomies and so on.

The law of comparative costs pre-supposes that the price of resources truly reflects their real scarcity in the economy. There are no divergences between private and social costs and there are no externalities. If these assumptions do not hold, then some sort of intervention is called for. The proponents of free trade advocate that in the presence of domestic distortions, the best way to deal with them may be to intervene in some direct way at the source of the distortion, and at the same time to allow the trade

to follow freely. Hagen (1958), Bhagwati, Ramaswami (1963), Johnson (1965) and Bhagwati (1971) among others, have argued that optimal intervention involves intervention at the source of distortion. If the market wage rates exceed the shadow wage rates, then the optimal policy is to subsidise the use of labour. If the production of manufactured goods falls short of the optimal level because of the existence of non-reversible economies, then the optimal policy is to subsidise production. It may be noted here that an analysis of optimal intervention assumes that the taxes to finance the subsidies can be raised in a non-distorting way, and that the collection of taxes and the disbursement of the subsidies is costless. These assumptions are not very realistic, however. In a developing country like Pakistan, the taxable capacity is extremely limited and in its initial stages of development tariffs were the only way of increasing tax revenues.

Protectionist history, on the other hand, spreads over many centuries and numerous arguments have been put forward to justify protection. These arguments for protection against the competition of foreign imports have taken different forms - both economic and non-economic. Non-economic arguments stress that economic welfare is not the sole goal of life. It may be necessary to become partially self-sufficient in certain lines of activity, even at great cost, because of fear of future disruptions in their supplies, especially during a war. Considerations of national defence may make it desirable to protect certain industries, say the steel industry, even if a country does not possess a comparative advantage in that industry. Apart from the non-economic arguments, a large number of economic arguments have been advanced to justify the case for protection. We shall briefly discuss some of those arguments, which are related to growth.

3.1.1 The infant-industry argument.

The infant-industry argument is one of the most widely accepted arguments for protection in less-developed countries. Its origin is usually associated with Alexander Hamilton (1791) and Friedrich List (1841), and is said to have been approved by orthodox economists like John Stuart Mill, Alfred Marshall and Frank Taussig, among others.

The infant-industry argument is essentially an argument for temporary protection. It is based on the assertion that because of various reasons, such as lack of experience on the part of the workers and entrepreneurs, it is difficult to establish a new industry in the face of competition from an established industry abroad. The costs of production in the new industry in its earlier stages of establishment exceed costs of imports. Therefore, the domestic producers cannot compete with the foreign producers and require protection for a transitional period till they become competitive in the world market after both labour and entrepreneurs have acquired the necessary know-how. This formulation of the argument assumes that the superiority of one country over another in a branch of production arises only from having begun it sooner. There may be no inherent advantage on one part, or disadvantage on the other, but only a present superiority of acquired skill and experience. The average costs of a firm are assumed to fall, the longer its output has continued; it learns from experience. This is to be distinguished not only from costs falling with the scale of output in a static sense, but also from costs falling over time for exogenous reasons. Sometimes these dynamic economies are called "irreversible economies", since experience of production in one year causes costs to fall once and for all for later years. When factors of production are engaged in producing output in a particular year two products really result, visible current output, saleable currently on the market, and the invisible accumulation of experience and knowledge. Insofar as the invisible human capital does not depreciate, the effects of learning are indeed irreversible.

The infant-industry argument is usually based on dynamic internal and external economies. Dynamic internal economies spring from the existence of imperfections in private information or imperfections of the capital market, while dynamic external economies are the result of the training of labour, knowledge diffusion or atmosphere creation. Private enterprise, owing to a lack of information or excessive caution may not

be able to look so far ahead as to see the fruits of investment in learning capital. The state, in the form of its civil servants or planners, has a longer view and sees a more favourable learning curve than the firm's owners or managers do. As a result, investment in an infant industry will not be forthcoming in the absence of protection.

Secondly, due to imperfections of the capital market there may be under-investment, or failure to invest at all, in the creation of long-term learning capital if the infant industry is not protected. The possible reasons for that are:-

(i) Investment in human capital is not embodied in physical goods and hence is more difficult to finance; the capital market is biased against "invisible" investment.

(ii) While existing enterprises have no trouble in obtaining funds, new enterprises find it difficult; there is a bias against infant firms.

(iii) Private investors, especially when using their own funds, may not be prepared to undertake long-term investment in human capital and wait for the years of infancy to end. The minimum time-period required for any significant learning to result may be high. The initial losses, which could be substantial, may not be overcome without assistance for infant industries.

When the process of production by a certain firm creates an invisible capital asset, the benefits of which go in later years to other firms, and other firms are not charged for it, there are dynamic external economies. The training of labour or the accumulation of human skills through 'on-the-job' training is one of the most commonly cited examples of external economies. If the firm trains labour specifically for use only in that firm, no external benefits will accrue to other firms. But in the case of more general training, whether in technical skills appropriate to an industry or perhaps in the habits of working regularly in a factory environment, a skill required for all the manufacturing industry, the benefits cannot be restricted to the

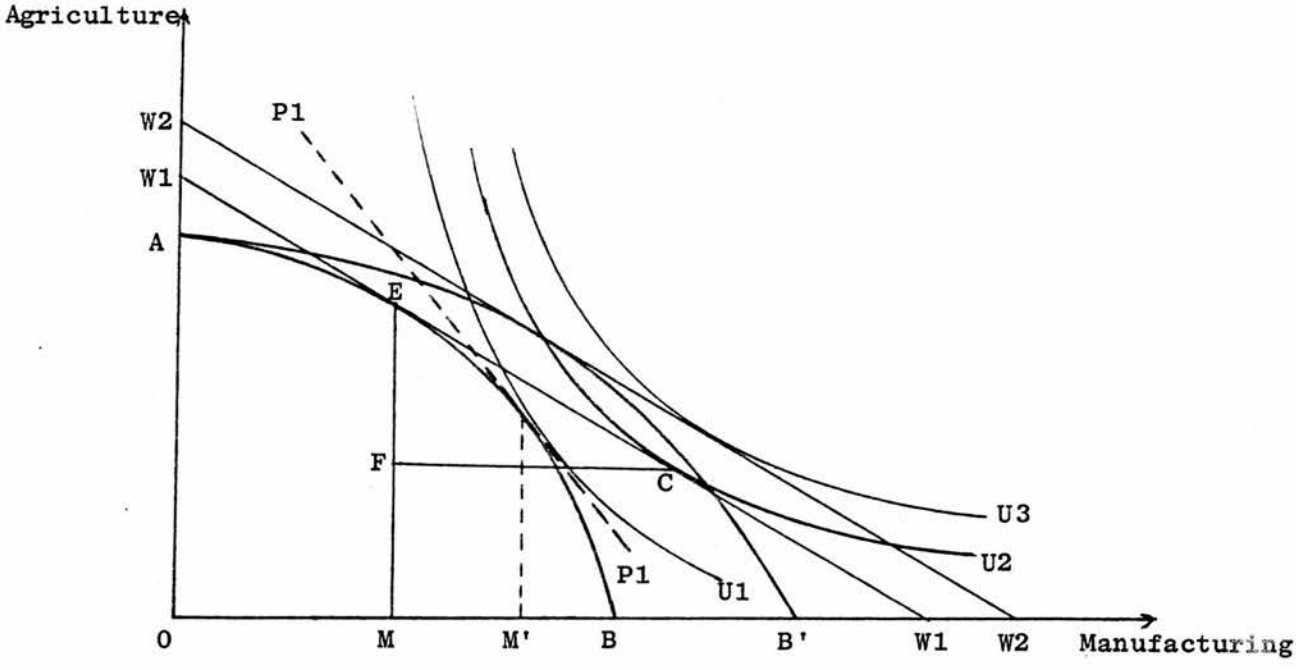
firms which provide training; some of them are bound to spill-over. A certain firm trains labour, and this experienced or trained labour may then go off to other firms. The general atmosphere, that is conducive to factory work or to the development of mechanical or scientific interests which has been created by one firm,may affect the quality of workers in other firms. The new attitudes and knowledge will go from worker to worker, and the gains will then spill over to other firms. Moreover, knowledge may spread from firm to firm. To some extent firms can keep new knowledge and ideas secret or patent them, but there is an inevitable diffusion process. In all these cases there is an externality, because new firms will be creating assets from which other firms benefit even though the other firms do not pay for them. Hence, there may be a case for providing protection to those firms which generate externalities, because this 'learning by someone else's doing' generates social benefits which exceed the private benefits.

The 'infant-industry' argument in developing countries is usually associated with manufacturing. This may be because historically many developing countries have deliberately sought to shift the output pattern from agriculture to manufacturing. The 'infant-industry' argument postulates that there is more scope for learning economies in manufacturing as its output expands and more time passes, perhaps because manufacturing is more difficult and requires a higher stage of technique and knowledge. The argument may be explained with the help of diagram 3.1, adapted from Haberler (1950, p.239).

In diagram 3.1 Agriculture and Manufacturing (in some compositite units) are measured along vertical and horizontal axes respectively. U_1, U_2 and U_3 are the community indifference curves and W_1W_1 and W_2W_2 are the free trade terms of trade curves. AB and AB' are the production possibility curves, concave to the origin, implying that the extra amount of manufactured goods which can be produced by decreasing a given amount of agricultural goods is steadily decreasing as we move downward along the production possibility curve, i.e. the opportunity cost of manufactured goods in terms of agricultural goods steadily increases as the production of manufactured

goods is increased and the production of agricultural goods is decreased.

DIAGRAM 3.1: Short-run vs. Long-run Effects of Protection on Welfare.



AB is the production possibilities curve given by the production factors at time zero. The country is relatively inefficient (in the static sense) in the production of manufactured goods and therefore, in the free trade situation only OM of the manufactured goods are produced. The country exports EF of agricultural goods in exchange for FC of manufactured goods and enjoys consumption at point C. Protection changes the relative prices in such a way that the domestic terms of trade are moved in favour of the manufactured goods and more resources are allocated to the production of the manufactured goods. In the protected situation, OM' of the manufactured goods are produced compared to OM in the free trade situation. Protection in this situation leads to a decline in the level of welfare in the short run, which can be seen in the diagram by a shift from U_2 to U_1. The reason might be that in the earlier stages of their establishment, the manufacturing industries are relatively inefficient and therefore the gross national product may be lower than otherwise, or the changes in the relative price interfere with the choice of the consumer. If the country has a dynamic comparative advantage, the static welfare loss may be more than

compensated by the gains at a later stage. After the necessary skills are acquired by the labourers and the entrepreneurs, the production possibilities curve shifts outwards to A B'. With the new higher production possibilities curve, even when the protection is removed, the consumption of the country would be at a higher level, i.e. at U_3. The AB curve shifts to AB' over time in the absence of any growth in the production factors and is due to the establishment of the industries in the base period which have generated learning economies.

It has been argued by Johnson (1964), Cordon (1974) among others, that the mere existence of non-reversible externalities is not sufficient to warrant the grant of protection. It is argued that if the capital markets are perfect and the entrepreneurs correctly perceive the reductions in costs, an entrepreneur would not be hesitant to finance the initial losses. However, the producers would not invest in the new business ventures even if the capital markets are perfect and the entrepreneurs correctly perceive the cost reductions, because of the possibility of a failure to internalize the externalities, i.e. the cost reductions do not necessarily lead to higher profits because if the other producers also benefit from the cost reductions, the prices will be forced to come down. Therefore, the infant-industry argument requires:

a) the existence of non-reversible economies,

b) the economies are external to the firm, and

c) the economies are internal to the industry.

It may be pointed out that the first-best policy to remove the divergence in social and private benefits arising out of non-reversible economies is the tax-cum-subsidy and the tariffs are the second best.

It is also notable that most of these arguments for protection may equally apply to agriculture in less developed countries. Private agriculture usually finds capital harder to obtain and more costly than industry, and surely a lack of information or foresight is a greater weakness of farmers than of urban industrialists. Furthermore, the scope for

learning and innovation in agriculture is often immense. New methods of irrigation, new seeds, fertilizers and even machines have a large part to play in agricultural progress. It becomes an open question as to whether the infant-industry argument does not apply as strongly in agriculture as elsewhere.

The infant-industry argument is usually applied to import-competing industries, but it can also apply to export industries. There is no strong reason why import-competing industries should have higher learning rates, and more specifically, why they should have more difficulty in foreseeing or financing internal dynamic economies or generate more external economies than the export industries. There is a special learning problem in breaking for the first time into foreign markets, so that there could be an infant marketing argument additional to the usual infant industry argument concerned with production.

Learning can potentially take place in many activites. The policy of special encouragement must not apply to all sectors, or it ceases to be effective at all. This is because one cannot give special favours to everyone, therefore, one must protect the industries where learning is relatively higher. In a general equilibrium framework all externalities and arguments for protection should be seen in relative terms.

3.1.2 Arguments arising from imperfections in the wage structure.

Free trade argument assumes that the relative costs of production of two goods correctly reflect the real values of the resources used in making them. It is quite widely believed that the costs of manufactured goods in developing countries exaggerate the sacrifices of output required in other sectors, particularly in agriculture. The market wage rates in the manufacturing sector exceed the shadow wage rates, therefore, industry needs some protection. Two main groups of arguments are used to explain the phenomenon, viz

1) the surplus labour model, and
2) the wage-differential model.

The surplus labour or disguised unemployment model is

generally associated with the names of Nurkse (1953), and Lewis (1954).[2] The starting point of the argument is the assumption that in the rural sector of the less developed countries, there is a vast surplus of labourers whose marginal product in agriculture is zero. They are maintained by their relatives at a subsistence level approximately equal to the average product of labour in agriculture, because the principle of income sharing operates in the rural sector. In the manufacturing 'Advanced' sector, the profit maximization principle rules and labour is paid the value of its marginal product. The surplus rural labour cannot, however, be attracted to industry at the subsistence wage, although this already exceeds its marginal product in agriculture which is zero. A considerable premium would have to be added to this subsistence wage before the surplus rural labour would become available to the urban industrial sector. Thus the private transfer wage of rural surplus labour to industrial employment far exceeds its true social opportunity cost which is determined by its marginal product in agriculure which is equal to zero. The conclusion is that labour is systematically over-valued for the urban industrial sector and this should be corrected by protecting manufacturing industry. First-best policy is then to subsidize the use of labour in the urban industrial sector, possibly financing the subsidy by taxing the subsistence sector, if that is practical. Second-best policy is to subsidize the labour-intensive industries and the use of tariff being perhaps third or fourth-best.

The simple exposition of the surplus labour model contains some grains of truth, otherwise it would not have had so powerful an intellectual hold for several years, but has some limitations too.

i) If labour moves out of peasant agriculture, the total product is likely to fall. Many people may be unemployed for a large part of the year, but at sowing and harvest times all hands are needed. Thus the marginal product

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(2) See also Ranis and Fei (1964).

is not zero. Little et al (1970, p.146) do not believe that it is often close to zero and suggest that a shadow wage-rate of less than half the actual wage is rarely easy to justify.

ii) The simple version of the model assumes that peasants place zero marginal value on leisure, at least over the relevant ranges of their utility functions. This is implied in the assumption that when some of them leave the sector, the remainder will work appropriately longer hours so as to maintain the same total output. With this assumption, the opportunity cost of the labour which moves to the industrial sector is zero. In practice the benefits of leisure cannot be ignored.

iii) If there is a significant number of hired agricultural labourers,[3] then the model ceases to be appropriate. Such labourers are likely to be paid their marginal products. As long as hired labourers are available in the subsistence sector, who are free to move into the industrial sector, employers in the latter need only pay a wage equal to the marginal product in the subsistence sector.

The second version of the argument is based upon the observed differential between wages in the 'subsistence' agricultural sector and the 'advanced' industrial sector, which may or may not be due to the rural over-population. Insofar as this gap is explained in terms of rural surplus population, this is not really different from the first version, and the policy implications are almost identical to those produced by the preceding model. But the observed wage differential may have been caused by other factors such as trade union organisations or minimum wage legislation for industry. Hagen (1958)[4] has advanced a dynamic explanation of the wage differential and built on it a case for protection.

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(3) In many LDCs there is a significant proportion of hired agricultural labour. Cordon (1974, p.128) put this proportion in India as 25 per cent of the total labour force in agriculture.

(4) See also Magee (1973).

He argues that in any economy in which per capita income is rising secularly and there is the process of growth, the size of the manufacturing sector grows secularly relative to agriculture. This is because of high income elasticities of demand for manufactures relative to agricultural products. It is continually necessary to transfer labour from agriculture to manufacturing. To induce the transfer of the necessary labour, the manufacturing wage will have to be continually above the agricultural wage. As a result of this wage disparity, manufacturing industry having a real comparative advantage will be under-sold by imports when foreign exchanges are in equilibrium. Protection which permits such an industry to exist will increase real income in the economy. (5)

One can certainly observe in many LDC's that the wage obtainable in the 'advanced' manufacturing sector is far above incomes earned in peasant agriculture. The question is whether this differential represents a genuine marginal divergence. The answer may be that every apparent wage differential may not be a true marginal divergence requiring correction by tariffs or subsidies.

First, it is not realistic to speak of the two types of labour in the two sectors as though they were a homogeneous factor. Before an agricultural worker from the traditional rural society can become even an unskilled worker in an urban industrial sector, complex changes in the way of life, attitudes etc. have to take place. Labour in the manufacturing sector may really be a package of subsistence labour plus human capital. The higher real wage in the manufacturing sector may thus be a return on investment in training and experience, and in the costs of movement from one sector to another.

Second, the higher wage in the manufacturing sector may be a necessary payment to obtain a permanent, stable labour force, living with family near the place of work, rather than the casual type of labour generally available in the traditional sector.

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(5) Hagen (1958, pp.497-8).

Third, the monetary wage payments may not give a correct indication of the true wages if one takes into account the availability of non-market food supplies in the rural subsistence sector, the higher cost of living in the city, and the possible disutility of uprooting oneself to go into the city.

It is probable that after all these allowances have been made, a genuine wage differential still remains, although precise measurement is likely to be very difficult, if not impossible. In order to correct the divergence, the first-best policy is to correct it at the source of divergence, perhaps by subsidizing the use of labour in the manufacturing sector. Tariffs might rank third or fourth-best policy.

3.1.3 Protection and economic growth.

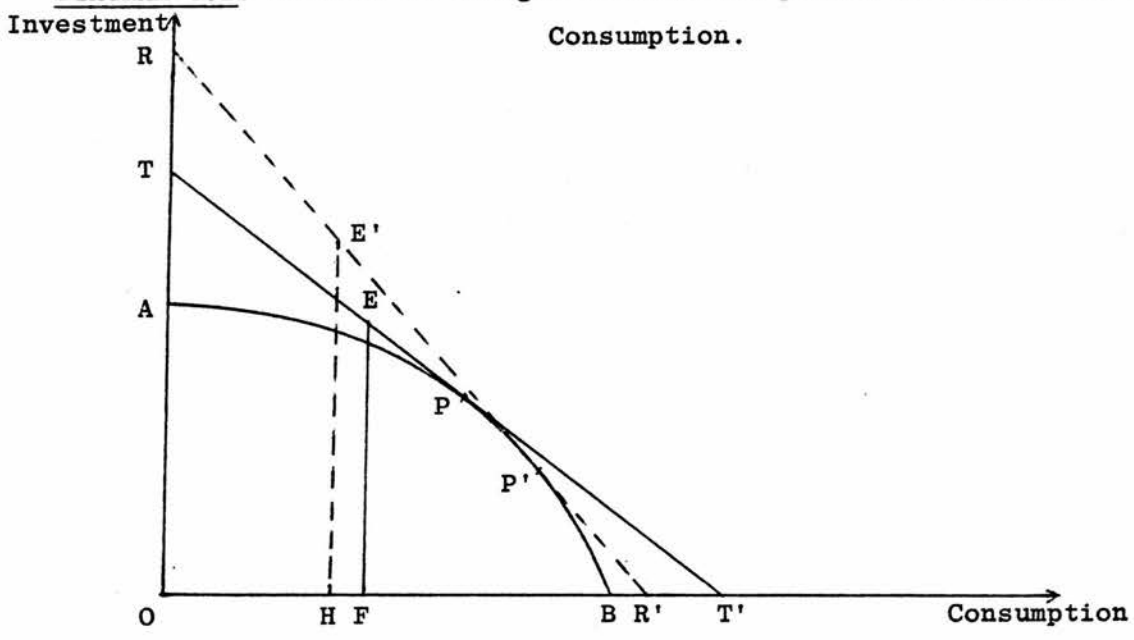
Protection can affect the rate of economic growth through its effects on savings and on relative prices between capital goods and consumption goods. Savings are not only a function of level of income, but also of income distribution if the marginal propensity to save differs between different sections of the community. It is often claimed that in less developed countries the marginal propensity to save out of profits is higher than that out of other incomes, especially wages. Hence any redistribution towards profits will raise savings, hence investment and the rate of growth. Protection of manufacturing industry is likely to redistribute income in favour of capitalists and raise profits out of which a large proportion is saved. Consequently the total savings increase. This argument assumes that the savings generated by a free trade pattern of real incomes are below the social optimum and that the pattern of expenditure diverges from the socially desirable pattern. There is a domestic expenditure divergence. Society values the savings higher than an individual does. The first-best policy would be to raise taxes in a minimum distortion way through an expenditure tax, and use the revenue to supplement savings. However, in an under-developed country with negligible manufacturing capacity and considerable difficulties in the levying and collection of taxes on agriculture, the expenditure taxes

may in fact imply tariffs. Tariffs raise revenues which the government can use to finance investment if the quantity of investment is sub-optimal. Strictly speaking, an expenditure tax should not discriminate between the domestic production and the imports, and as such, tariffs should be accompanied by excise taxes on the domestic production. However, since in addition to generating higher savings, tariffs are also used for protecting manufacturing industries, excise taxes are not in general imposed at the rate equalling the rate of tariffs. If the tariffs are just sufficient to off-set the cost disadvantages, the protection may not increase significantly savings via the redistribution of income, and if the tariffs are in excess of the cost disadvantages protection may increase profits and hence savings. Here two qualifications may be noted: First, while high profits increase savings, they also may raise the consumption of the rich and add to their wealth, both of which may have undesirable social and political consequences. Second, it is not uncommon for high protection to lead as much to inefficiency as to high profits, in which case the gains from high savings are doubtful.

So far we have assumed that protection may affect the rate of growth by raising savings and investment through its effects on the redistribution of income. Protection may affect the rate of growth through its effects on relative prices. It may reduce the prices of capital goods ruling within a country in relation to the prices of consumption goods. Many countries deliberately discriminiate in their tariff or import control systems in favour of imports of capital goods. They impose high tariffs or severe restrictions on imports of manufactured consumer goods, and low tariffs on imports of capital goods, or make import licences for capital goods readily available. The net result is that the domestic prices of capital goods become lower relative to the prices of consumption goods. When the relative price of capital goods falls, the ratio of investment to consumption may rise. This may lead to an increase in the total amount of investment in real terms. The increase in capital accumulation may increase the rate of growth. We can show the effect of change in relative prices on investment in a

very simple two-goods model with the help of diagram 3.2, adapted from Corden (1971b,p.129).

DIAGRAM 3.2: Effects of changes in relative prices on Investment and Consumption.



Investment goods are measured along the vertical axis and the consumption goods along the horizontal axis. AB is the production possiblities curve which, in the absence of trade shows real income of the country that is equal to consumption plus investment. The free trade price ratio is given by the slope of TT', in which case the country produces at P, and the absorption point is E. At this point investment is equal to EF. Free trade income in terms of consumption is OT' and the propensity to save is FT'/OT'. If, after the tariffs, (or other trade restrictions which can be expressed as tariff equivalents) the price ratio (terms of trade) is given by the slope of RR', the production would shift from P to P'. Income in terms of consumption falls to OR'. If the proportion of expenditure between consumption and investment is to stay constant, the new absorption point E' must lie to the left of E, so that the propensity to save HR'/OR' = FT'/OT'. It follows that after the change in the price ratio, consumption falls, and investment increases - a sort of substitution effect. We can see from the diagram that if point E' lies exactly above E, investment would increase even though the expenditure on consumption in absolute terms is unchanged. The extra amount of investment would be financed out of improved terms of trade

between capital goods and consumption goods. The investment is likely to rise in real terms, even if the consumption does not fall and the expenditure on capital goods decreases somewhat, depending upon the changes in the domestic price structure.

The question is: will more capital-goods be purchased at the expense of consumption-goods just because their relative domestic prices have changed? One possibility is that the demand for consumption goods is completely inelastic. When prices of consumption-goods rise, consumers reduce their savings sufficiently for purchases of consumption goods to stay constant, and thus the funds available for investment will be reduced, but the lower prices of capital goods compensate for this. On balance, the purchase of capital goods will remain unchanged. Nothing will have changed; real savings and investment will be the same as before. This is just the limiting case. People may reduce their savings somewhat when prices of consumption goods rise, but not so much as to maintain constant consumption levels. Hence consumption will fall and investment will rise. The implications of such a policy making the imported capital goods artificially cheap have been brought out by economists such as McKinnon (1971).

Firstly, cheap capital leads to the use of capital-intensive techniques and the over-encouragement of capital-intensive industries. These methods may be suitable for the factor proportions of developed countries, but are not at all appropriate for less developed countries with large supplies of labour, where labour-intensive techniques are needed. Moreover, as fixed capital is cheap, this leads to waste of fixed capital in the form of excess capacity.

Secondly, as imported fixed capital is mainly used in the advanced sector, the investment in the advanced sector is subsidized, while in the subsistence sector it is not. The influential industrialists sitting in the cities know the techniques of extracting import licences from the bureaucracy. The result is that the nation's scarce savings are diverted away from the subsistence sector towards the advanced sector. The subsistence sector becomes excessively labour-intensive

and remains undeveloped.

Thirdly, high tariffs and import restrictions on consumption goods provide high levels of protection to consumer-goods industries, while capital goods industries remain almost unprotected. This leads to the discouragement of domestic production of capital goods compared to the production of consumer goods. That is one of the reasons why some of the less-developed countries have been slow to move into the production of capital goods.

3.1.4 Some other arguments.

There are many other arguments which have been put forth for protecting manufacturing industries in the developing countries. These include among others, economies of scale, the diversification of industries, improving the balance of payments and self-sufficiency. Self-sufficiency, as discussed above, is a non-economic argument, although in practice it plays a major role in determining the structure of protection. The economies of scale argument is essentially an argument of internal economies. It is argued that in the developing country, the size of the market is so small that even the minimum size of an efficient plant cannot be run at an optimum level of intensity. Thus the costs of production exceed the prices of imports. Therefore, there is a need to protect or subsidize that industry until the demand grows to such an extent that capital can be used in an optimum way. Static economies of scale combined with a moving demand curve provide no argument for protection as such. It may be argued that the setting-up of that industry may be postponed till the market has sufficiently grown, or investment may be made in a piece-meal manner. The argument for protection can be made only if there are indivisibilities of investment and some sort of divergence between social and private benefits. This may perhaps arise from complementarities between various industries, in which case the expansion of one will make the other more profitable, or the setting-up of an industry now rather than later is socially desirable from the point of view of externalities. In any case, tariff protection will not be the first-best policy. In the case of complementarity

the problem might be that of investment co-ordination and information. Deliberate co-ordination, consultation, indicative planning and so on would be the first-best methods to be used for the purpose.

The argument for diversification of production springs from the instability of foreign trade and uncertainty about the future. Most of the developing countries rely upon the production and export of one or a few primary commodities, the world demand for which is unstable. The resultant fluctuations in prices of these commodities may have serious economic effects for the country, which can be avoided by diversifying the production and by re-allocating the resources in favour of the production of commodities with less fluctuations in prices. Moreover, the popularly held view, that long-term movements of the commodity terms of trade have been and are expected to go against the less-developed countries, also calls for re-allocation of resources out of primary products exports and into the production of import-competing products. It is argued that in order to induce this reallocation, protection is necessary. This argument for intervention assumes that private decision-makers lack foresight, otherwise they themselves would adjust appropriately. The government or their planning authorities are better informed, and possess greater foresight than private individuals, and thus there is a domestic divergence leading to the misallocation of resources. First-best policy appears to be to spread better information; changing present prices through taxes and subsidies would be second-best, and through tariffs perhaps third-best.

The desire for an improvement in the balance of payments has led many developing countries to pursue the policy of protection. If a country is running a balance of payments deficit, this means that foreign exchange is wrongly-priced and there is a trade divergence. It may be argued that a first-best policy would be to raise the price of foreign exchange appropriately, i.e. to devalue the domestic currency. Since the divergence is in the price of foreign exchange, the use of tariffs will not be first-best. A tariff will only act on the import side, but will fail to stimulate exports. However, many developing countries are reluctant to devalue

their currencies. The reasons for this reluctance are many, including the extreme pessimism about export expansion, the fear of adding to the inflationary pressures or the devaluation being interpretted as the failure of the past economic policies and so a loss of prestige, and so on.

We have summarised above some of the arguments put forward for protecting manufacturing industry in developing countries. Pakistan, like many other developing countries, has used tariffs and other import restrictions (sometimes coupled with export promotion policies) for protecting the domestic industry. The ground on which protection was granted to domestic industry is not at all clear from the reports of different committees set up by the Government from time to time. The concern about a deficit in the balance of payments, however, seems to have played an important role in this connection, because tariffs and especially quota restrictions, have been widely used in order to achieve a balance between foreign exchange availability and the demand for it.

We turn now to the actual developments in Pakistan's commercial policy since Independence, and to an analysis of various instruments of the policies employed for protecting domestic industry.

3.2 Evolution of Pakistan's Commercial Policy.

The history of Pakistan's commercial policy can be divided, broadly speaking, into three periods, namely (1) the period up to 1959, (2) from 1959 to 1972, and (3) from 1972 onwards, although distinct sub-periods within these phases are distinguishable on account of changes in policies or changes in emphasis on policy measures.

The period up to 1959 was, generally, characterised by direct controls and a bias against exports. Not only imports were subject to severe controls, but also investment, and the prices of some manufactured products were directly controlled. During the period too much emphasis seems to have been placed on achieving a reduction of imports and too little effort seems to have been made to increase export earnings.

From 1959 to 1972, concerted efforts were made to alleviate the bias against exports, which was created by the over-valuation of the currency. Exports were actively encouraged through a number of export promotion schemes like the Export Bonus Scheme, the Export Performance Licensing Scheme, the Pay-As-You-Earn Scheme, tax rebates and tax exemptions etc. In May, 1972, the Pakistani Rupee, which had remained over-valued for a long time, was devalued. Following the devaluation, the licensing procedures were significantly simplified and export duties were levied on a number of commodities in order to mop-up the windfall profits.

The partition of the sub-continent and Pakistan's emergence as an independent State in 1947 suddenly interrupted the long-standing channels of domestic trade, which instead became trade between two unfriendly countries. In the undivided India, manufactured consumer goods flowed into the areas that became Pakistan in exchange for agricultural raw materials and food grains. The precise magnitude and composition of flows of goods between Pakistan and India before Partition is not known. However, Rahman (1963, p.101) has estimated that in 1948-49 trade with India accounted for more than 50 per cent of the total foreign trade of West Pakistan (the present Pakistan), on private account, which may give a fair indication of the pre-Partition inter-regional economic relations between Pakistan and India because of the liberal trade that existed between them until September 1949. The composition of trade between them may be seen from Table 3.1.

The data in Table 3.1 show that about 63 percent of imports from India into Pakistan were those of manufactures, while more than 76 per cent of exports from Pakistan to India consisted of raw materials. The trade continued to flow between the two countries with relative ease until the last quarter of 1949. During this period, Pakistan had adopted a relatively liberal import policy in order to re-build stocks of essential consumer goods which had been depleted due to the disruptions of the partition and en-masse departure of non-Muslim traders.

TABLE 3.1

The composition of Indo-Pakistan Trade in 1949.

(value in Million Rs.)

COMMODITY GROUP	INDIA TO PAKISTAN		PAKISTAN TO INDIA	
	VALUE	PERCENTAGE SHARE	VALUE	PERCENTAGE SHARE
1. Food, Drink & Tobacco.	157.46	28.54	94.43	15.53
2. Raw materials	47.67	8.64	466.71	76.74
3. Manufactures.	346.62	62.82	47.01	7.73
Total	551.75	100.00	608.15	100.00

Note: These figures are for All-Pakistan (former West Pakistan plus former East Pakistan).

SOURCE: Rahman, M.A: "Partition, Integration, Economic Growth and Inter-regional Trade: A Study of Inter-wing Trade in Pakistan 1948-1959". Karachi, 1963, p.102.

On September 17th, 1949 the U.K. devalued her currency by 30.5 per cent. India and other sterling area countries except Pakistan, followed suit and India devalued her Rupee to the same extent. Pakistan was the only sterling area country which decided not to devalue her rupee and maintain the par value of the Pakistani Rupee, vis-à-vis the U.S. dollar and other non-devalued currencies. Three distinct but inter-related reasons seemed to have been at the back of Pakistan's decision not to devalue her currency.(6)

1. It was felt that in view of the inelastic supply of exports from Pakistan and relatively inelastic demand for imports into Pakistan, the balance of payments was not likely to improve as a result of devaluation; and further
2. that the basic balance of payments position did not give any cause for concern, and that if payments' pressure did emerge, it could be met to a reasonable extent by drawing upon the foreign exchange reserves which in September 1949 were quite large; and finally
3. It was expected that the non-devaluation decision would have a favourable impact on the internal price level and that lower import costs in domestic currency of machinery and other capital goods would provide an incentive for the much desired industrial growth.

The immediate, and perhaps unexpected result of Pakistan's non-devaluation decision, was virtually complete trade dead-lock with India for about eight months until April 1950, due to the latter's flat refusal to accept the new parity between the Indian and Pakistani Rupee. Pakistan was forced to divert trade to countries other than India - an erstwhile major trade partner. However, the adverse effects of this trade dead-lock were mitigated to some extent by the later events like the outbreak of the Korean war in 1950. The period from mid-1950 to mid-1952 witnessed a tremendous upsurge in world-wide demand for Pakistan's raw material exports. The scramble for raw materials raised the

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(6) Hasan: (1961, pp.19-20).

prices of exports and resulted in a notable improvement in Pakistan's terms of trade. Export earnings nearly doubled in 1950-51 compared to 1949-50, and were well maintained during 1951-52, although somewhat lower than in the previous year.[7] The import policy which had remained rather cautious after October, 1949 was liberalised in June 1950. A large number of items were placed on the Open General Licence (O.G.L): these could be imported without any licensing restrictions. The import policy was further liberalised during 1951-52, and almost 85 per cent of total private import by value was permitted without licence in that year.[8] However, this policy of import liberalization did not last long. After the hostilities of the Korean war diminished, export prices began to recede and export earnings to diminish. With diminishing export earnings and a rising value of imports, the foreign exchange reserves began to drop. The drain on reserves had become so severe by July 1952 that the existing O.G.L. was sharply restricted in August and completely abolished in November, 1952. By September 1952, deficits in the balance of payments had reduced gold, dollar and sterling reserves to the lowest level since Partition. Their further running-down, in view of the highly volatile nature of Pakistan's foreign exchange earnings, was considered extremely undesirable. The Government realized that a foreign exchange crisis was imminent, and they chose to meet the crisis by using direct controls on imports. The import control system which was adopted in 1952 remained the sole basis of import licensing decisions until 1959, and with certain modifications until 1972, when the whole procedure of import licensing was rationalized. The basic strategy of the import policy adopted after the devaluation of the Pakistani Rupee in 1972 was to minimise the administrative controls, to free the economy from procedural bottlenecks, and to allow market forces to operate freely to determine investment and the level of imports.[9] Now we shall discuss

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(7) Hassan: (1961) op. cit. p.24.

(8) Andrus and Mohammad: (1958). p.264.

(9) Pakistan Economic Survey (1971-72) p.16.

briefly the mechanics and institutional arrangements of Pakistan's exchange control system and import licensing policy.[10]

3.2.1 Foreign Exchange Budget.

The exchange-control system of Pakistan regulates both the inflow and the outflow of foreign exchange. According to the Foreign Exchange Regulations Act, 1947, exporters are required to surrender their entire foreign-exchange earnings to the State Bank of Pakistan at the official exchange rate.[11] Foreign exchange expenditure is regulated by a high-level Foreign Exchange Committee, which is charged with preparing the annual Foreign Exchange Budget, and keeping an eye on the foreign exchange position of the country throughout the year. The Foreign Exchange Budget, a secret document, includes a review of the past and an estimate for the future on both the receipts, as well as the expenditure sides. The Budget allocates foreign exchange expenditures among competing uses and users in accordance with national priorities, and the limited availability of foreign exchange resources. Foreign exchange expenditure is limited by the expected accruals of foreign exchange during the year, plus the extent, decided by the Foreign Exchange Committee, to which the foreign exchange reserves are allowed to run down.

In constructing the expenditure side of the Budget, the Committee, after allowing for the priority claims like debt servicing etc., divides the remaining sum between the public and the private sectors. The allocation to the public sector is based on estimates of its import requirements, presented to the Foreign Exchange Committee by various ministries and the semi-public corporations. The committee

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(10) The descriptive and analytical work on the working of import control system in Pakistan has been done by many, among whom are:
1. Naqvi, S.N.H: "Import Licensing in Pakistan" PDR, Spring 1964.
2. Thomas,P.S: "Import Licensing and Import Liberalization in Pakistan" PDR, Winter 1966.
3. Child,F.C: "Liberalization of the Foreign Exchange Market" PDR, Summer 1968.

(11) Govt. of Pakistan, Office of the CCI&E:"Manual of Imports and Exports Control". Rawalpindi, 1964, p.55.

distributes this allocation along the various ministries and further specifies how much each ministry can spend on developmental and non-developmental imports. The estimates of private-sector import requirements are presented to the committee by the Ministry of Commerce, and form the basis of the allocation of foreign exchange to the private-sector. In the case of the private sector, the Committee does not specify how much of this allocation is to be spent on developmental and non-developmental imports. This is left to the discretion of the Chief Controller of Imports and Exports (CCI & E) in the Ministry of Commerce. The Foreign Exchange Budget is approved by the Cabinet, after which the budgeted foreign exchange expenditure cannot be exceeded without its prior approval. The actual disbursement of foreign exchange is done through the Exchange Control Department of the State Bank of Pakistan. Foreign-aid funds, however, are excluded from this budgetary process. They fall under the jurisdiction of the Economic Affairs Division in the President's Secretariat, which also must divide these resources between Public and Private uses.

3.2.2 Import Licensing.

As Thomas (1966) has pointed out, there are basically three systems of exchange control in Pakistan, viz. Government imports, imports of capital goods in the private sector and imports of consumer goods, raw materials and spare parts for industries in the private sector. The Government imports are determined as a part of the budgetary process, as noted above. The imports of capital goods for industrial expansion in the private sector are determined as part of the broader industrial policy of the country, and are controlled by the investment sanctioning procedures. Whereas in the case of Government imports and the imports of capital goods in the private sector the licensing procedures have not changed significantly over time, there have been significant changes in the licensing procedures for the imports of consumer goods, industrial raw materials and spare parts in the private sector.

Almost every import in the private sector requires a licence issued by the Chief Controller of Imports and Exports

(CCI & E), in the Ministry of Commerce. Broadly speaking, prior to the devaluation of the Pakistani Rupee in 1972, there were two types of licences, viz. 'Commercial licences' and Industrial licences'. The commercial licences were issued to the importers, who acting as middlemen, generally re-sold the imported commodities without further processing in the domestic market, while industrial licences were issued to the manufacturers for the import of spare parts and raw materials exclusively for their own use. In both cases, one licensing decision by the CCI & E determined simultaneously which commodities were to be imported, in what quantities, by whom, and sometimes also from which source. The task of issuing the commercial licences to the 'eligible importers' from a large number of potential importers was carried out by the adoption of a 'rule of thumb'. Those importers who had an import performance to their credit during the period of July 1950 to November 1952, when there was essentially free-importing under the O.G.L. system, were made 'eligible' importers and were known as 'category holders'. A category was, in essence, a unit of account, and was based on the average value of imports of a particular commodity by an importer during the five shipping periods of 1950-52. One importer, however, could have more than one category if he had imported more than one commodity during that base-period. The actual value of each licence was expressed as a percentage of the category, which reflected the 'essentiality' of the commodity and liberal or stringent nature of the Import Policy subject to the amount of foreign exchange earmarked in the Foreign Exchange Budget for the private sector.

The 'Industrial licences' for importing raw materials and spare parts were not issued to all firms. They were issued only to 'recognised' industrial units, which had been set-up under proper sanction of the Government. The CCI & E relied on the Provincial Directorates of Industries for deciding upon the eligible industrial importers and for determining what industrial goods in what quantities were to be imported. The Directorates assigned a quota or entitlement

based on the installed capacity of the manufacturing enterprise, signifying that the 'quota-holder' was an eligible importer. In addition, the Directorates issued an 'assessment certificate' indicating the 'requirements' of raw materials and spare parts of an industrial unit on a single-shift basis. These certificates were based on the survey of Industrial Units undertaken regularly by the Directorates, and were expressed as a percentage of the industrial importer's quota/entitlement. The CCI & E then issued industrial licences called 'regular industrial licences' largely on the basis of these assessment certificates. It may be noted here that, unlike categories which had not been increased, the creation of quotas/entitlements was a continuing process. New quotas/entitlements were created on the basis of the Survey of Industrial Units and the installation of properly sanctioned new industrial capacity. The creation of new capacity and the balancing and modernization of the existing industries was sanctioned by the Central Permissions Committee (since 1964 replaced by the Central Investment Promotion and Co-ordinating Committee) in the Ministry of Industries. Once approved by the investment sanctioning authorities, the industrial licences for importing machinery for new industrial capacity or balancing and moderni zation were automatically issued by the CCI & E. Similarly, a loan from the Pakistan Industrial Credit and Investment Corporation (PICIC) or from Industrial Development Bank of Pakistan (IDBP) for establishing a new industry, or adding to an existing one, resulted in the automatic issuance of a licence by the CCI & E.

The relaxation of the strict rigidites of import control system and a move towards 'import liberalization' began in 1959 with the introduction of the Export Bonus Scheme. Further moves towards 'liberalization' were made in the coming years with the adoption of a new open General Licence (New O.G.L.) system, and the introduction of Repeat/Automatic Licensing, Export Performance Licensing and the Free List. These measures are discussed briefly below:

(i) Imports under Bonus and Cash-cum-Bonus.

We shall discuss the Export Bonus Scheme in more detail in the next chapter. Here, let it suffice to say that the

Export Bonus Scheme allowed some imports into the country without the cover of a licence. The exporters of specified commodities were given the bonus vouchers equivalent to a certain percentage of the export proceeds. As import licences (from a specified list of imports) were automatically issued against these vouchers, they allowed more imports of consumer goods, spare parts and raw materials permitted in the list.

A cash-cum-bonus procedure, established in 1967, was a compromise between a bonus voucher system and an ordinary licensing scheme. Under this arrangement, the importers could obtain licences only when their applications were accompanied by bonus vouchers covering 50 per cent of their exchange requirements. Both bonus and cash-cum-bonus imports, however, introduced an element of market mechanism into import trade.

(ii) Open General Licence (O.G.L.)

The O.G.L. system, suspended in 1952, was re-introduced in 1961. The purpose of the new O.G.L. was to allow the newcomers (i.e. those who had not been importers during the 1950-52 period) into the import trade, and especially to encourage new importers from regions of the country where there were no (or few) importers during the 1950-52 base-period. The new O.G.L., however, was much more restricted than the old O.G.L., as no 'category holder' with categories in excess of a certain amount or 'entitlement holder' could apply for the licence, no importer located in Karachi or Lahore could apply for the licence and the eligible importers under the new O.G.L. had to comply with several formalities.(12)

(12) The importer under the new OGL had to get himself registered with the appropriate Licensing Authority before the issue of licence. He had to apply for registration on a prescribed form by a certain deadline and had to satisfy the Authority that:

i) he was a resident national of Pakistan,
ii) he was a dealer in the commodity,
iii) he had a proper and independent place of business,
iv) he was registered with the Income-Tax Authorities,
v) he was not a proprietor or partner/shareholder of any other firm getting any licence, and
vi) if he was an importer, the aggregate of his categories did not exceed the specified limit.

'Manual of Imports & Exports Control' (1964, pp.24-25).

It was hoped that the new system would bring the domestic prices of imported goods down by breaking the monopoly of the 'category holders' and by promoting greater competition and efficiency in the import trade.

Since the amount of foreign exchange allocated for imports remained more or less the same, and the licences issued to the new firms did not exceed ten per-cent of the value of imports covered by Commercial licences,[16] the domestic prices of imported goods did not fall. It appears, as Naqvi (1964) has pointed out, that the re-introduction of the O.G.L. probably reduced the profits of the established importers, shared them more widely, and achieved a wider regional distribution of import licences.

(iii) Repeat/Automatic Licensing System.

The Repeat/Automatic Licensing System was introduced in 1961 for certain commodities importable under either commercial or industrial licences. Any importer, who had utilized his first licence for the shipping period before the end of that period, could make a request for the repeat licence. A new licence equalling the value of the original licence was automatically issued to him if he had provided the evidence that he had utilized the first licence, and if the foreign exchange was available for the remainder of the shipping period.

In 1962, 'request' licencing was introduced in order to encourage certain industries with an export performance or an export potential. Certain specified industries were allowed to import raw materials and spare parts to be used by the industries themselves, over and above their entitlements under normal licensing. The actual value of the imports permissible depended upon the industries' export performance. We shall discuss this in detail in the next chapter.

iv) Free List.

The "Free List", introduced in January 1964, permitted the import of some essential raw materials like iron and

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(16) Naqvi: (1964), Op.cit. p.61.

steel from the U.S. under aid agreements without cover of a licence and with minimum administrative controls. This was a major step forward towards 'import liberalization'. In the import policy of January to June 1964, four items of iron and steel were placed on the Free List; fifty more items were allowed on this list in the following six months, and in January 1965 another four items were added to the list. However, this trend could not be maintained, particularly after the war with India in September 1965, following which 'aid' to Pakistan was suspended. The number of items on the Free List was reduced and various restrictions on some items of imports were imposed. Child (1968) remarked that the free list was free in name only. In 1968, of the fourteen items on the list, two were importable by the public sector only, five by industrial users only, and commercial imports were subject to various restrictions such as the minimum and maximum size of individual orders of goods of each type, the country of origin and the destination within Pakistan. Although the free list was much less free in the second half of the sixties than in 1964 and 1965, it has remained a part of the import control system of Pakistan.

In spite of the efforts for import liberalization briefly described above, the import control system of Pakistan had become very comprehensive, complex and discriminatory over the years. The bonus-voucher segment of foreign exchange had been expanded gradually, which had created a system of multiple exchange rates. The existence of several import procedures, coupled with administrative controls, was creating distortions of the allocation of resources and growth of the industry. Above all, the separation of East Pakistan from the western wing in 1971 brought about serious disruptions in the pattern of trade of West Pakistan. To overcome these problems, Pakistan devalued her Rupee by about 56.7 per cent in May 1972, and the Export Bonus Scheme was liquidated. Following the devaluation, the import control system was revised. The basic strategy of the new system was to minimise the administrative controls. Since then, the system of categories and entitlements has been abolished; the distinction between commercial and industrial

importers, and between recognised and non-recognised units has been discarded. An import licence would be issued freely to any Pakistani on registration. There are only two lists, i.e. free list and tied list - the free list for cash foreign exchange, and the tied list for tied credits and barter. There is, of course, a "banned list", the commodities of which cannot be imported into Pakistan. The procedures for the import of permitted commodities have been simplified, and many other restrictions have been removed. For example, the machinery for balancing and modernization within specified limits and for new capacity creation up to a certain value can be imported freely. These measures have changed the nature of the whole import licensing system in Pakistan.

3.2.3 Tariff Policy.

The policy on tariffs (i.e. import duties plus sales taxes) is another tool of commercial policy used to provide protection to the import-competing industries. In Pakistan, tariffs have been used to help control import composition and to encourage the domestic production of specified import subsitututes. The import duties are usually ad valorem, whereas sales tax is levied at a flat-rate on the landed cost of imports (C.I.F. import price plus import duties). The Economic Appraisal Committee (1953) favoured protection to the manufacturing industries through the cascaded tariff structure which involves lower tariffs on intermediate and capital goods, and higher tariff duties on consumption goods. Although the Committee preferred protection through tariffs under normal circumstances, yet in view of the then foreign exchange situation, it recommended the use of quantitative restrictions. The quantitative restrictions, which were imposed in 1952 after the short fall in export earnings, existed even before the Committee's report, and the Committee in fact endorsed them. It may be noted, however, that in the presence of excess demand for foreign exchange and severe quantitative restrictions on imports, the tariffs (unless they are raised to sufficient levels to take over the rationing of imports from import licensing) become superfluous as

far as their protective effects are concerned. Thus the tariffs were only used to divert a part of the importer's profits to the government revenue. The general pattern of tariffs and the changes in them over time, may be seen from Table 3.2.

Table 3.2 shows that the lowest tariffs were levied on the import of machinery and equipment; they were higher on raw materials and the highest on consumer goods, particularly on luxuries and semi-luxuries. The trend in tariff rates has been that of increasing over time, and the differentiation has also increased over time.

3.3 The Structure of Protection.

The manufacturing sector in Pakistan has enjoyed a continued high level of protection for more than two decades. The cascaded tariff structure and the system of import licensing, discussed in the previous sections, have provided protection to the manufacturing sector since 1952. The tariffs and quantitative restrictions on imports were imposed in 1952 in view of the foreign exchange difficulties, and not to protect the industries as such,[17] but since then they have afforded a powerful impetus to the domestic industry. There are many ways of analysing the structure of protection in a country. The average level of tariffs is one apparent measure of protection. In the absence of monopoly and other restrictions on the free movement of goods, the domestic prices of import-competing goods would be equal to the prices of imports. The tariffs would raise the domestic prices of imports and would provide protection to the import-competing industries. However, if there are domestic indirect taxes on production, they will offset the tariff protection to that extent. If we deduct the domestic indirect taxes from the tariff rate, we can arrive at a measure of 'nominal tariff protection'. The 'nominal tariff protection' may be defined as the percentage excess of domestic prices over the world market prices of a commodity, resulting from the imposition

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(17) Andrus & Mohammed (1958), p.169.

TABLE 3.2

Average Rate of Import Duty by Types of Commodity (1955/56 - 1965/66)

DESCRIPTION	1955-6	1956-7	1957-8	1958-9	1959-60	1960-1	1961-2	1962-3	1963-4	1964-5	1965-6
Consumption Goods.											
(a) Essentials.	35	35	35	35	35	55	55	55	56	56	70
(b) Semi-luxuries	54	54	54	54	54	111	111	111	116	118	148
(c) Luxuries	99	99	99	99	99	140	140	140	142	144	180
Raw Materials for Cons. Goods.											
(a) Unprocessed	26	26	26	26	26	27	27	27	30	31	39
(b) Processed.	43	43	43	43	43	50	50	48	51	65	95
Raw Materials for Capital goods.											
(a) Unprocessed.	23	23	23	23	23	28	28	28	31	32	40
(b) Processed.	38	38	38	38	38	40	40	39	42	55	69
Capital Goods.											
(a) Consumer durables.	71	71	71	71	81	85	85	85	89	91	114
(b) Machinery and equipment.	14	14	14	14	14	17	17	17	17	22	34

Note: The rates given in the table are simple averages of tariff rates only (i.e. they exclude sales taxes on imports.)

SOURCE: Radhu: "The Rate of Structure of Indirect Taxes in Pakistan" P.D.R. Autumn 1964.

Thomas: "Import Licensing and Import Liberalization in Pakistan" P.D.R. Winter 1966.

of tariffs. The 'nominal tariff protection' may differ from 'effective tariff protection'. The latter is protection to the value added in an industry which takes into account both the tariffs on the inputs into the good, and the tariffs on the good itself, and may be defined as the percentage excess of value added at domestic prices over the value added at world prices of an activity or process resulting from the different tariffs on both the output and the inputs. The reasons for using effective rather than nominal protection generally are (1) it takes account of tariffs on inputs which may offset or accentuate the nominal protection, and (2) the low nominal protection may still result in high effective protection in industries with extremely low value added. Lewis (1969) calculated all three measures of protection afforded by tariffs from 1954-55 and 1963-64. These are given in Table 3.3.

The rates of average tariff and 'nominal protection' given in Table 3.3 indicate that the average level of protection afforded by tariffs increased over time and that there was an increase in the differential protection between the intermediate and consumption goods as well over the period considered. If we ignore the investment and related goods, the figures for effective protection attribute more than two-thirds of value added, on average, of consumption and intermediate goods to tariff protection. Averages, however, hide a considerable part of the inter- and intra-industry variations in the level of protection which were found in both the periods considered. Nevertheless, these figures are suggestive and are indicative of the high levels of protection which the tariff structure provided for manufacturing industries in Pakistan.

Tariffs would measure the level of protection only if they were the main determinant of the level of imports and the domestic prices of imports. In Pakistan, as discussed in the section on import licensing, the quantitative restrictions rather than the tariffs were the binding constraints on imports in most of the cases. In that situation, although tariffs did play some role, they were not the main determinant of domestic prices of imports, which were primarily

TABLE 3.3

Average level of Tariff Protection on Major Groups of Manufacturing Industries

(1954-1955 and 1963-1964)

Industries Producing Primarily:-	Average Tariff		Average Nominal Tariff Protection		Average Effective Tariff Protection (a)	
	1954-55	1963-64	1954-55	1963-64	1954-55	1963-64
Consumption goods.	65	88	53	66	76	74
Intermediate goods.	40	54	32	33	71	60
Investment and Related Goods.	39	44	33	35	49	81(b)

Notes:- (a) The expression used for effective protection is to be interpreted as:- 'the percentage of value added in the industry that is due to tariff protection'.

(b) The very high average rate for investment and related goods industries in 1963-64 is due primarily to extreme values for transport equipment and metal products which were 256 and 247 respectively.

SOURCE: Lewis (1969, Table 15, p.74).

influenced by the quantitative restrictions of the import licensing system. Pal (1964,1965) and Alamgir (1968) have made comparisons of domestic wholesale prices and landed costs (CIF price plus tariffs duty plus sales tax plus minor charges such as clearing charge, licence fee, wharfage charge etc.) of imported commodities for the periods June - August 1964, October 1964 - January 1965 and November 1966 - February 1967. They estimated the scarcity premia - the excess of domestic wholesale prices over the landed costs of imports - which are given in Table 3.4.

The average mark-ups shown in Table 3.4 give an approximate idea of the extent to which the licensing system affected the domestic prices of imports. The average mark-up for all the imports studied was 43 per cent, and 40.8 per cent in 1964-65 and 1966-67 respectively, which means that the domestic prices of those commodities exceeded their full duty-paid value at the official exchange rate by approximately 40 per cent in the mid-sixties. In such a case, the use of an average tariff as a measure of protection would under-estimate the extent of protection. Moreover, the average mark-up, which in 1964-65 was about 48 per cent for consumption goods, 38 per cent for intermediate goods and 40 per cent for investment and related goods, decreased to about 31 per cent in the case of consumption goods but increased to about 50 and 44 per cent for intermediate and investment and related goods respectively in 1966-67. From this, it appears that the relatively low protection implied by the tariff structure for intermediate and capital goods was offset to some extent by the licensing system. On the basis of data in Table 3.4, it can be said that the licensing system created protection to the import competing activities in addition to the one suggested by tariffs alone, and improved greatly the competitive postion of intermediate and capital goods. Whatever measure of protection is considered, the conclusion is that the manufacturing sector in Pakistan was afforded a high level of protection which favoured investment in the production of import-competing goods.

TABLE 3.4

Average Percentage Mark-ups[(a)] on imported commodities in Pakistan.

	Dec.1964-Feb.1965	Nov.1966-Feb.1967
A. Consumption Goods.	48.1	30.8
1. Licensed items	58.0	36.2
2. Free List items	21.4	17.5
3. Bonus List items.	7.2	10.1
B. Intermediate Goods.	38.0	49.9
1. Licensed items	52.8	55.7
2. Free List items	34.0	49.6
3. Bonus List items.	--	17.6
C. Capital Goods.	40.1	44.2
1. Licensed items	62.1	84.9
2. Free List items	27.4	33.7
3. Bonus List items.	--	18.9
D. Total.	43.0	40.8

Notes: (a) Mark-up or Scarcity premium calculated as

$$= \frac{\text{Domestic Price - Landed Cost}}{\text{Landed Cost.}}$$

(1) Price of bonus voucher of Rs 100 worth of foreign exchange assumed to equal Rs 150.

SOURCE: Based on Alamgir (1968), Table I, p.44.

CHAPTER IV

EXPORT PROMOTION SCHEMES OF PAKISTAN.

Pakistan like many other less developed countries adopted a policy of Import Substitution (IS) in the 1950s, for which there may have been many reasons.

In view of the relative backwardness in her manufacturing industry at the time of Independence, such a policy may have been considered as a means of achieving a faster rate of economic growth. The planners noted in the First Five Year Plan that industrialization was perhaps the most significant process in economic development and the purpose of economic development, in the circumstances of the country, was to complete as rapidly as possible the transition from feudalism to industrialism.(1) The Government officials may have felt that the principal constraint on development was the inability of potential domestic investors, due to their lack of industrial experience, to decide where to invest, with the consequence that they would consume rather than invest. As imports were proof of a domestic market, an IS policy by restricting imports or totally shutting them out, could induce people to make their investment decisions. Andrus and Mohammed (1958)(2) have pointed out that the use of import policy for promoting industrial development was not deliberately undertaken by the government in the earlier years, but after the foreign exchange difficulties of 1952, it became the most powerful factor in the rapid growth of industry.

Secondly, the export pessimism of the inter-war period had lasted well into the 1950s. It was widely believed that the supply-price elasticity of exportables in less developed countries, a domestic parameter, was very low, because of institutional rigidities in the case of rural exportables or because of the difficulties of entry or quality in the case of non-traditional manufactured goods. Moreover, both income and price elasticities of the foreign demand for less developed countries' exports were considered to be very low. Engel's Law, synthetics etc. were the key code words. The belief that the country's potential exports faced a dismal future, regard-

(1) Government of Pakistan, "First-Five Year Plan". p.395.

(2) Andrus and Mohammde (1958, p.169).

less of what policies it adopted, may have forced the country to economise on its future use of foreign exchange and so to adopt the policy of IS.

Finally, after 'political independence' in 1947, the desire for 'economic independence' made IS perhaps an objective per se.

Whatever be the reasons, Pakistan adopted the policy of IS in the early 1950's, particularly after 1952, when foreign exchange difficulties became acute. Tariffs, quantitative restrictions and currency over-valuation were used as tools of 'inward-looking' policies of economic development. The policies of tariffs and import-licensing provided a high level of protection of the manufacturing sector. The process of IS through policies of protection and currency over-valuation without corresponding export promotional policies involves a discouragement of the expansion of exports. How does it discourage exports?

Firstly, it increases the relative returns from investment and production in the import-substituting industries compared to that in the export expanding activities. In the protected domestic market, demand is likely to be excessive relative to the supply. The domestic prices of importables and so of import- substitutes would be higher than world prices, making the domestic market and production for the domestic market more profitable.

Secondly, the costs of the imported inputs for use in the export industries or activities go up insofar as the restrictions and tariffs on the imports designed to encourage the import substitution raise their domestic prices. When a potential exporter makes -use of an input which has paid an import tax, his costs of production increase and he is at a disadvantage compared with a manufacturer in the country which supplies that input or where the import tax is lower. On the other hand, if he uses an input supplied by the protected domestic supplier, the exporter is equally at a disadvantage, because domestically produced inputs which replace imported inputs will certainly be sold at a price higher than the import price without tariffs.

Thirdly, the import-substituting industries, earning

high profits in the sheltered and protected domestic market bid up such factor prices as the level of urban wages, often considerably above the opportunity cost of labour. This is partly facilitated and reinforced by the social welfare legislation of the government and the pressure of trade unionism in the industry. Export industries thus face an increasing cost of labour and an increase in total costs.

Fourthly, the rate of exchange under protection will be higher (i.e. fewer units of domestic currency will be exchanged for a unit of foreign currency) than it would be if trade were free. The exporter will get less domestic currency at the official rate of exchange for a given quantity of exports than he would if there were no protection and trade were free. Exports abroad thus involve a surrender of sales from the highly profitable domestic market to the less profitable foreign market. This reduces the profitability of exporting and in many cases contributes to an 'Inefficiency Illusion' - a feeling that domestic production costs exceed world prices and that the domestic industry would therefore be unable to compete in the world market - which hampers the exploitation of even existing export opportunities.

Finally, import substitution policies, which include low or zero tariffs on imports of capital equipment, when combined with relatively high industrial wages, may encourage the establishment of capital-intensive industries or the use of capital-intensive techniques which are simply not suited to a particular country or its particular stage of development. The resulting technical and managerial inefficiences, under-utilized capacity and lack of flexibility and adaptability even in the industries in which the country has a fundamental comparative advantage may all inhibit the development of export markets.

The bias of IS policy against the export sector can be overcome by devaluing the exchange rate and removing import controls and tariffs. However, reducing tariffs and dismantling import controls is usually not considered politically feasible in many less developed countries, and in some cases a devaluation policy is ruled out. The revenus from tariffs, the belief in some countries that civil servants

are more competent than businessmen, the vested interests of some civil servants and businessmen in perpetuating a system of direct controls and a general psychological discomfort with devaluation in many less developed countries might be some of the reasons for reluctance to use the market place to allocate resources. One may add to the list that there may be a conflict between political cohesion and economic efficiency. In a purely competitive model the market place gives all resources to the most efficient producer (or region), while direct controls allow a compromise allocation. People who must continue living together may prefer a compromise situation to a "winner-takes-all" situation. Consequently, in the late 1950's and early 1960's many developing countries, including Pakistan, opted for a more pragmatic approach by implementing various combinations of export promotion measures, sometimes combined with periodic devaluations along with the IS policy. The term "export promotion measures" is vague and so varied that it has included all those measures which increase the gross receipts from exports (like the Export Bonus Scheme) or reduce the exporter's costs (like drawback or custom duties exemptions on inputs) on the one extreme, to information, marketing and establishment of export promotion organizations on the other. For instance, the following measures have been listed under Pakistan's export promotion measures:-

a) Export Bonus Scheme.

b) Export Performance Licensing Scheme.

c) Export credit Guarantee Scheme.

d) "Tax holidays" for a period of 2 to 6 years for those export industries which export at least 30 per cent of their production.

e) Exemption of exports from excise duty, sales tax etc., and refund of customs duties, excise duty etc. on raw materials used as inputs for manufactured goods exported.

f) Trade Agreements.

g) Export Promotion Bureau which, besides co-ordinating the

activities of the exporters and foreign demand, provides the following services:

(i) Export information and Advisory Centre.

(ii) Commercial intelligence.

h) Export market Development Fund, which assists in financing the

(i) Trade Fairs/exhibitions. (ii) Export Publicity.

(iii) Sending/Receiving Trade delegations.

(iv) Design Centres.

(v) Training and Research in export marketing.

(vi) Seminars.

(vii) Miscellaneous activities like market surveys abroad for specific products and consultants' services.

i) Standardization and grading of certain exportables.

j) Fixing of overall export targets and their distribution, both country and commodity-wise, among individual units.

k) Pay-As-You Earn Scheme.

l) Concessional Railway freight rates on some export commodities.

m) Discounting of export bills at a rate 1 per cent beneath the ordinary discount rate.

n) Special credit facilities etc.[3]

The alternative term 'export incentives' is also vague. In the situation of an over-valued exchange rate and quantitative restrictions on imports when there is a bias against exports, many export incentives may actually offset the unfavourable effects of these policies on exports. However, if these export promotional measures encourage exports over and above the correction of over-valuation of the exchange rate, they may be called positive export incentives. Whether

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(3) Pakistan Economic Survey (1970-71, pp. 106 - 113), and Hufbauer (1971, p.66).

these incentives are positive incentives or merely offsets to disincentives, insofar as they affect the exporters profits in some sense and encourage exports (otherwise they could not be called incentives), their analysis is important and deserves attention. Estimates of how effective the existing or the planned level and structure of incentives is, and how relative incentives vary among industries may help policy-makers to formulate policies for the export vs. the domestic market. Since we want to incorporate them into a quantitative measure of effective exchange rates for exports later, a brief summary of the structure and operation of the major schemes is given below.

4.1 Export Promotion Attempts before 1959.

Several measures were taken to promote exports from Pakistan even before 1959. In 1952 the Export Promotion Committee recommended the improvement of infra-structure facilities for exporters at home and systematic publicity for the country's exports abroad. Bilateral and barter trade agreements were entered into, rebates on customs duties paid on raw materials used in manufactures for export were allowed, and the process of freeing exports from controls was accelerated.

Bilateral and barter trade agreements were perhaps used as the earliest means of promoting exports. Barter agreements were entered into for the first time in 1952 with the U.S.S.R. Since then, such agreements have been the rule in dealing with the Communist Bloc countries, although some agreements have been negotiated from time to time with countries outside the communist bloc as well. These agreements generally incorporated target quantities to be licensed for export, but with no guarantee that the stipulated quantities would in fact be shipped. Quite often large gaps remained between the prescribed targets and actual export performance. Primary commodities, especially cotton, appeared prominently as exports from Pakistan in most of the agreements, although a major objective had always been to introduce relatively less-known exports to foreign markets. The magni-

tude of bilateral, and barter trading has been small and did not cover more than 2 per cent in 1965.(4)

As industrialization proceeded, some measures were taken to encourage the exports of manufactured goods. Stringent import controls were hampering the import of essential goods for exporters. For the first time, in July 1954, import privileges were linked to export performance and an Export Incentive Scheme was introduced. Under this scheme, the exporters of selected minor commodities (other than cotton, hides and skins etc.) were entitled to receive import licences worth 15 to 40 per cent of their export earnings for importing essential goods. However, the scheme was restricted in scope and covered less than 1 per cent of total exports in 1957.(5)

Finally, export control was steadily removed. The number of freely exportable commodities increased from 38 at the end of 1952 to 357 at the end of 1956. In January, 1959 export control was lifted altogether, except for a small number of items considered essential for the economy, the export of which was restricted or prohibited.(6)

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(4) Andrus and Mohammed (1966, p.36).

(5) Andrus and Mohammed (1958, p.271, 277).

(6) Prohibited items of export or items which required an export licence or permit were:-
(i) All imported goods in their original or unprocessed forms.
(ii) Ferrous and non-ferrous metals. (iii) Petroleum & petroleum products.
(iv) Oil seeds except castor seeds and edible oils.
(v) Jute seeds, sann hemp seeds and artemisia seeds.
(vi) Chillies, garlic, ginger, onions and pepper. (vii) Grain and flour.
(viii) pulses, potatoes and red beans. (ix) Milk and milk products.
(x) Sugar, gur and jaggery powder. (xi) Bran fodder and pollards except oil-cakes.
(xii) Animals living-all sorts except monkeys and thoroughbred race horses both subject to certain specified conditions.
(xiii) Arms and ammunition and explosives and ingredients thereof.
(xiv) Cement. (xv) Maps. (xvi) Fissionable materials.
(xvii) Beef and muttons, all forms, and animal fat.
(xviii) Specified sports goods and surgical instruments subject to price, quality etc. conditions.
(xix) Charcoal and firewood. (xx) Coconuts and copra.

SOURCE:- Government of Pakistan, "Manual of Imports and Exports Control". (1964, pp.147-153).

4.2 Export Incentives Since 1959 - The Export Bonus Scheme.

It was not until 1959 that export expansion became a major objective of Pakistan's commercial policy. In January 1959, the Government introduced the Export Bonus Scheme, which replaced all previous devices for promoting exports. The recommendation of Dr. W.Vocke, a German advisor to the Pakistan government during late 1958, played a vital role behind the introduction of this scheme. This scheme provided a mechanism for transferring a portion of the profits of import trade to the export sector through a market. It subsidized exports of selected goods at the expense of the importers in order to secure a greater exportable surplus at an unchanged official rate of exchange. The scheme combined in one measure a relaxation of exchange control, a parti al devaluation, and the establishment of a partial flexible multiple exchange rate.

Under this scheme, exporters of specified commodities (initially excluding traditional primary commodities, namely raw cotton, hides and skins, rice excluding superior varieties i.e. Basmati, Parmal and Begami and raw wool), in addition to the amount of rupees converted at the official exchange rate, were issued a certificate called a 'Bonus Voucher' up to a specified percentage of their export proceeds (F.O.B. value). The voucher was a ration coupon honoured by the State Bank of Pakistan for obtaining foreign exchange to import a wide range of goods allowed on the bonus import list. The exporter himself could use that voucher to purchase imports present on the bonus import list, or he could sell it in an organised market because the voucher was negotiable and transferable. In view of the scarcity of foreign exchange, the voucher could be sold at a price determined by the market, commonly called a 'Premium'. Thus for an exporter who sold his vouchers in the market, total earnings from his exports were equal to the rupee equivalent at the official exchange rate of the price the foreign importer paid plus the amount he received for the voucher.

An example may be helpful at this point.

A Pakistani exporter sold goods abroad and earned the equivalent of (say) Rs. 100 in foreign exchange. In compliance with the foreign exchange regulations of the country, this foreign exchange was immediately sold to the State Bank of Pakistan at the official exchange rate. The exporter received Rs. 100 as well as a voucher equal to some specified percentage (depending on the commodity exported) of the amount earned which entitled its owner to purchase foreign exchange. Assuming that the Bonus rate was 20 per cent, the premium on Bonus vouchers was 150 per cent and the exporter sold the Bonus voucher in the market, his total receipts from exports would become 100 + 100 (20%) (150%) = Rs 130, or 30 per cent more than at the official exchange rate. In symbols:-

$R_j = P_j(1 + bp)$, where

R_j = total receipts from exports of commodity j,

P_j = Price in rupees paid by the foreign importer (at the official exchange rate),

b = Per cent of P_j earned as a voucher, and

p = Premium expressed as a % age of the amount of foreign exchange that the voucher entitled one to purchase.

The rate of subsidy involved in this scheme could easily be computed on any item, since it was the Bonus rate for that item times the Premium at which Bonus vouchers were sold. This subsidy would, in turn, raise the domestic price of exports (unless the domestic supply curve of that export was perfectly elastic), and would also tend to increase the profitability of exporting for the individual manufacturer. The higher domestic price would reduce domestic consumption of the export goods (unless the domestic demand curve for those goods was completely inelastic) and induce greater investment in export industries, each effect tending to increase the exportable surplus.

On the import side, the purchaser of a voucher worth Rs. 100 paid Rs. 150 for the voucher, which means he paid Rs. 150 for the right to purchase Rs. 100 worth of foreign

exchange. He must then pay the Rs. 100 necessary to buy the foreign exchange. He therefore paid Rs. 250 for Rs.100 worth of foreign exchange valued at the official rate of exchange, or two-and-a-half times the official rate. Implicit in this scheme was also an element of protection to the domestic industry. Since the premium increased the price of foreign exchange for bonus imports or raised their domestic prices above the CIF prices at the official exchange rate (if there were no tariffs and additional restrictions on their import) by the extent of the premium, in effect, it afforded protection to their domestic production to that extent.

The Export Bonus Scheme had been modified continuously with respect to (a) rates of bonus available to various items, (b) coverage, (c) timing of surrender of vouchers, (d) composition of items importable under the scheme, and (e) percentage of bonus surrendered for imports.

4.2.1 Rate Structure.

Originally there were two bonus rates, i.e. 40 per cent of F O B value for fully manufactured goods excluding cotton manufactures and 20 per cent of F O B value for all other items entitled for bonus including cotton manufactures and cotton yarn. The 20 per cent rate was also applied to net foreign exchange earnings from certain service industries: air-craft repairs, salvage operations, ships repairs, shipping and later from Feb. 1960, the hotel industry. The official wording of the announcement contained an element of ambiguity in terms of defining exports as belonging to one group or the other. The general tendency on the part of exporters was to claim the highest possible amount of manufactured value-added in the hope of qualifying for the higher bonus rate. In order to clarify the situation, on Dec. 9th 1959, the Government announced a comprehensive list of export items (initially containing 558 items)[7] eligible for bonus and their respective rates. The list remained open to modifications and

(7) Government of Pakistan, "The Budget (1960-61)", p.52.

additions and in a way represented a listing of potential export products of Pakistan. Over the years attempts were made to adjust these arbitrarily set rates to the competitive capacity of the individual items or specific demand and supply constraints (or influences brought to bear by pressure groups). As a result, the rate structure proliferated and by the beginning of 1964, the number of rates admissible under the Bonus Scheme had increased to six, i.e. 10, 15, 20, 30, 35 and 40 per cent (or seven including zero per cent for commodities not entitled to any bonus). A list of items entitled to the bonus with their respective rates as they stood in the beginning of 1964 is reproduced in Appendix (B). Naturally, this large number of admissible rates complicated the operation of the scheme and, what was more serious, encouraged even more appeals for special treatment. To end this state of affairs, the Government on June 12th 1964 rationalised the whole rate structure and allowed only two rates, viz. 20 per cent to all items which previously earned 20 per cent or less, and 30 per cent to all other items previously earning more than 20 per cent.

These two rates of 20 per cent and 30 per cent remained essentially unaltered (except for minor adjustment for some items) until November 1967, when the U.K. devalued the Pound Sterling by about 14.3 per cent. Pakistan once again decided not to devalue her Rupee. Instead the structure of the already operating Bonus Scheme was used to maintain the competitive position of Pakistan's exports. Consequently, with effect from November 22nd 1967, the following changes in the Bonus Scheme were announced:-

(i) a 10 per cent additional bonus for all goods and invisible export earnings already eligible for bonus,

(ii) the introduction of a 20 per cent bonus on the export of raw wool for the first time since the inception of the Export Bonus Scheme in January 1959.

(iii) the abolition of export duty on raw cotton.

The rate structure evolved in 1967 stayed basically

unchanged for almost the next two-and-a-half years, although some less significant adjustments were also made. For example, in 1968 (since 20th July 1968) pickled hides and skins, garlic, onions, pulses of all sorts, red beans, rice bran and husk, wheat bran, guar meal and some seeds, were removed from the bonus list, and the bonus rate for tanned leather was reduced from 40 per cent to 30 per cent. Besides such minor adjustments, no significant changes were made in the 1967 rate Structure of the Bonus Scheme until July 1970. By that time wide-spread internal disturbances, labour unrest and political tensions had exerted extraordinary strains on the economy, and created foreign exchange difficulties. As a result, the following measures were announced on July 10th 1970:-

(i) A bonus of 10 per cent was allowed, for the first time since the introduction of the scheme in January 1959, on the export of major primary commodities, namely raw cotton, hides and skins, rice or any other commodity on which so far it had not been applied.

(ii) The bonus on the export of raw wool was reduced from the existing rate of 20 per cent to 10 per cent.

(iii) The existing bonus rates of 30 per cent and 40 per cent were each raised by 5 percentage points to become 35 per cent and 45 per cent respectively.

(iv) A bonus rate of 10 per cent was made applicable to the net foreign exchange earnings from some service industries (aircraft repairs, salvage operations and ship repairs), while earnings from shipping remained entitled to a 45 per cent bonus.

The period of a couple of years or so after these changes in rates was marked by chaos and instability in the economy. Although there was relative stability in the rate structure of the bonus scheme, several other changes were made to it. However, after the severance of inter-wing ties in 1971, the problem became one of enormous proportions, probably beyond the scope of the Export Bonus Scheme. Finally,

after more than thirteen years of operation, the scheme was terminated in May 1972, when the Pakistani Rupee was devalued by about 56.7 per cent (The Rate of Exchange was changed from U.S.$.1 = Rs 4.76 to U.S.$.1 = Rs 11.00 w.e.f. May 12th 1972). Following the devaluation, export duties on some commodities were levied. These are given below:-

1. Raw cotton and cotton waste.	40 per cent ad valorem.
2. Cotton yarn.	50 paisa per lb plus 20 paisa per lb for 21 to 24 counts.
3. Grey cloth.	15 paisa per square yard.
4. Rice Basmati.	34 rupees per cwt.
5. Rice coarse.	7 rupees per cwt.
6. Raw wool.	1.30 rupees per lb.
7. Raw hides and skins.	40 per cent ad valorem.
8. Semi-tanned and tanned skins.	15 per cent ad valorem.
9. Oil cake.	15 per cent ad valorem.

SOURCE:- Pakistan Economic Survey (1972-73, p.15).

4.2.2 Coverage.

The Export Bonus Scheme was applied to several categories of foreign exchange earnings, viz. commodities, service industries and invisible foreign exchange earnings, and over time its coverage was broadened. The announced purpose of the scheme was to increase Pakistan's foreign exchange earnings from the export of manufactured goods and services with a high degree of domestic value-added. As a consequence of such an objective, as well as to account for their world elasticity of demand and/or domestic supply constraints, certain items (traditional primary exports such as raw cotton, hides and skins, raw wool and rice excluding some superior varieties) were totally excluded from the purview of the scheme from the very beginning. Most of these commodities were not made

eligible for bonus vouchers until July 1970, when they were also granted a bonus at the rate of 10 per cent of the F O B value. However, certain other items used either as inputs in domestic manufacturing like yarn, pickled hides and skins or as items of food consumption such as garlic, onions, pulses, etc. had also been excluded from the scheme from time-to-time. Their exclusion had been primarily due to domestic supply constraints. Among the eligible commodities, broadly speaking, semi-processed goods had received vouchers at the rate of 20 per cent of F O B value until 1967, when the rate was raised to 30 per cent, which from July 1970 was further increased by 5 percentage points. Fully manufactured commodities had been allowed bonus vouchers at the rate of 40 per cent of F O B value until 1964, when this rate was reduced to 30 per cent, only to be raised again to 40 per cent in 1967 and by another 5 percentage points in 1970. Of course, there had been deviations from these rates and intermediate rates had existed almost all along during the operation of the Export Bonus Scheme.

The scope of the Export Bonus Scheme (apart from excluding certain items from it) was widened over time. The number of items eligible for bonus,which was about 560 at the end of 1959, increased to more than 650 by 1962.[8] The exports from bonus items continually increased in value and in terms of the relative magnitude of total visible export receipts. The percentage share of bonus exports in total visible exports is given in Table 4.1. In terms of relative share bonus exports increased from about 37 per cent in 1960 to about 82 per cent in 1970 of total visible exports. This increase in the relative share of bonus exports in total visible exports should, however, be interpreted with care. The increase had resulted not only from the rapid growth of bonus exports, but also from the inclusion of more and more export items into the purview of the bonus scheme. After 1970, all commodity exports had been entitled for bonus vouchers.

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(8) Pakistan Economic Survey (1961-62, p.72).

TABLE 4.1

Percentage share of Bonus Exports in Total Exports.

Year	Percent share	Year	Percent share
1960	37.1	1967	54.6
1961	37.9	1968	59.8
1965	42.7	1969	78.3
1966	51.1	1970	81.8

Note:- Percentage shares are for all Pakistan (former East Pakistan plus former West Pakistan).

SOURCE: 1960 and 1961 from Pakistan Economic Survey (1961-62, p.73. For the rest of the table, Pakistan Economic Survey (1970-71), Table 61, p. 108.

As far as invisible earnings of foreign exchange were concerned, coverage of the scheme was continuously broadened in this respect too. Certain service industries (aircraft repairs, salvage operations, ship repairs and shipping) were allowed bonus vouchers at the rate of 20 per cent of net foreign exchange earnings from the outset. Net foreign exchange earnings from the hotel industry, but with restricted use of vouchers, were added to the list in February 1960. Home remittances from Pakistani nationals working abroad became eligible for bonus vouchers at the rate of 30 per cent from September 1st, 1963. Along with other rate increases, the bonus rate on home remittances also was raised by 10 per cent in 1967 and another 5 per cent in 1970. Writers and journalists' earnings of foreign exchange from all types of literary and journalistic contributions abroad were made eligible for bonus at the rate of 40 per cent with effect from March 6th 1969, while the facility at 45% was extended to artists' earnings, w.e.f. March 5th 1971, to those of architects and consultants w.e.f. April 28th, 1971 and engineers and consultants w.e.f. November 27th 1971. In the closing year of the scheme, almost every type of incoming foreign exchange was made eligible for bonus vouchers at the

rate of 45 per cent.[9]

4.2.3 Some other Features of the Scheme.

The Export Bonus Scheme introduced on January 15th 1959, on the successful completion of its first year, was extended for another year up to 14th January 1961. The success of the Scheme in encouraging exports was so impressive that the Government, on June 23rd, 1961 announced that the Scheme would be continued throughout the Second Plan period i.e. until 30th June 1965. This comparatively longer lease of life to the scheme helped to create greater confidence in the scheme and put it on a more stable footing. All along it was expected that the scheme would be terminated once the exporters had gained experience in the exporting business, initial difficulties of entering into the new markets had been overcome and the exports had become more competitive. However, after the rationalization of the rate structure on June 12th 1964, the scheme was extended in its new form into the Third Five Year Plan, i.e. up to 30th June 1970. Whereas the need for earning more foreign exchange through export expansion continued to increase, the desired degree of competitiveness of Pakistani exports could not be achieved. The result was that the scheme could not be terminated without drastically devaluing the Pakistani Rupee until May 12th 1972.

Bonus vouchers at specified percentages of foreign

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(9) **With effect from January 15th 1972, a 45 per cent bonus was allowed on the following types of earnings, provided the foreign exchange was received through normal banking channels:-**

All commissions received in foreign exchange; profits, interest, dividends and rents earned by Pakistanis and Pakistani business houses (other than banks) abroad; remittances made by foreigners (other than diplomats) from abroad for the maintenance of their families in Pakistan and for education expenses of their dependents; pensions earned in foreign exchange whether for services rendered in Pakistan or outside; receipts on account of bank charges, royalties, trade-marks and subscriptions to newspapers and magazines; and all professional fees paid for in foreign exchange.

SOURCE: IMF, "Annual Report on Exchange Restrictions (1973)" p. 375.

exchange earnings were issued to those eligible (exporters or recipients of foreign exchange) on application to the State Bank of Pakistan. The application was to be made within 45 days (since April 14th 1969 within 15 days) from the date of realization of export proceeds or the date of receipt of foreign exchange. These vouchers could be used for (a) the importing of goods on the bonus import list and subject to certain conditions,[10] for (b) business travel abroad, and (c) for opening and maintaining commercial offices abroad. For the import of goods under the Bonus Scheme an import licence called a 'bonus licence' was necessary. Any person (not necessarily the person in whose name the bonus voucher was issued) upon surrendering bonus vouchers, could apply through an authorised dealer in foreign exchange to any Licensing Authority for the bonus licence within the validity period of the bonus vouchers. Bonus Bouchers had normally been valid for one month from the date of issuance by the State Bank except for the import of machinery and equipment. The validity period of bonus vouchers was extended from 30 days to 90 days on September 17th 1965, but was again reduced to 30 days on April 10th 1967 in order to accelerate the pace of their utilization. However, in later years several changes were made in this validity period.[11]

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(10) In 1964, nationals of Pakistan or firms in which they had more than a 50 per cent interest were allowed up to 2½ per cent of bonus entitlement if the applicable rate of bonus was 40 per cent or up to 5% if the applicable bonus rate was 20%. These quotas were available for only 12 months and the quotas for travel were not transferable. [Manual of Imports and Exports Control (1964, pp. 297-98)].

(11) On October 10th 1970, the validity period of bonus vouchers was reduced from 30 days to 21 days. On November 24th, 1971, it was extended from 21 days to 42 days and on December 5th 1971, it was further extended from 42 days to 90 days. (IMF: "Report on Exchange Restrictions". Various issues).

In the case of the import of machinery and equipment by properly sanctioned industrial units, either for new capacity creation or for balancing and modernization, the validity period of bonus vouchers could be extended up to one year. The actual bonus licences issued upon surrender of bonus vouchers were normally valid for six months from the date of issue. However, for the import of machinery and equipment, such licences were valid for 12 months and could be extended to 24 months on request. Both the bonus vouchers and the resulting bonus licences were freely transferable (except for the hotel industry), but in the case of the sale or transfer of licences no extension in the validity of a licence or change in description or classification of items was allowed at this stage.

The Bonus vouchers, which could be used for importing any item on the Bonus Import List, were freely transferable and negotiable, and could be sold at a premium in an established market (which included forward delivery). Changes in the Bonus Import list naturally caused changes in the market quotation for bonus vouchers. The eligible list of bonus imports originally comprised 219 items, generally of an inessential nature, or for which adequate productive capacity was available in the country. Over the years, several changes were made to this list. Certain items were excluded from it, certain others were included in it and at times the character and composition of this list was altered altogether. Whereas the import of certain raw materials and spare parts for industrial use had been allowed on bonus from the very beginning, it was not until January 22nd, 1966 that as many as 149 industries were made to meet their requirements of raw materials and spare parts exclusively from bonus imports. The only exceptions were the items on the Free list which they could import without surrender of bonus vouchers. This was done after the September 1965 war between India and Pakistan, following which 'aid' to Pakistan from donor countries was suspended. This resulted in severe foreign exchange pressures and, in consequence, severe import

restrictions. The next significant change in the bonus imports came on July 1st 1967, when a new feature, Cash-cum-Bonus imports, was introduced in the system of licensing for the first time, and 10 items were placed on this list. Under this system, importers had to surrender 50 per cent in the form of bonus vouchers in order to get cash licences for the full value of their share. While the main consideration in introducing this sytem was the conservation of foreign exchange, another reason was said to be that it was depriving importers of undue profits arising from cheaper imports under cash resources, which importers did not pass on to the consumers. The Cash-cum-Bonus list was fast expanded to 70 items in the next import policy (Jan - June 1968), and the expansion continued in the subsequent years.[12] Along with this increase in the number of items importable under the Cash-cum-Bonus scheme, an additional facility was provided in January 1970. Since that date, in addition to the items importable under this Scheme, all items (except tools and workshop equipment, and drugs and medicines importable exclusively under barter) on the Free and Licensable lists were also made importable under the Cash-cum-Bonus scheme within the entitlement of importers.

On the other hand, the Bonus Import List proper was continuously modified and altered to reflect the emphasis of economic policy. This list was used to change the composition of imports and over time shift the emphasis from consumer goods to capital goods and industrial raw materials. It was also employed to augment supplies of both commercial and industrial goods. For this purpose all quantitative restrictions on imports under bonus were lifted with effect from January 1968, and since July 1st 1968 all items on the Free,

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(12) The number of items on the Cash-cum-Bonus list during different import policies:-

July - Dec. 1967, 10; Jan - June 1968, 70; July - Dec. 1968, 94; Jan - June 1969, 95; July - Dec 1969, 111; Jan - June 1970, 115; July - Dec 1970, 124; and from January 1971 onwards, almost all raw materials and spare parts were placed on this list.

SOURCE: Pakistan Economic Surveys. Various issues.

Licensable and Cash-cum-Bonus lists were made importable under Bonus as well. These features of the bonus import list continued to operate till its termination in 1972.

All these changes in the Export Bonus Scheme, i.e. changes in the rate structure, coverage, items included in the bonus import list, timing of surrender of voucher etc., had their effect on the market quotation for bonus vouchers. The bonus vouchers, a ration coupon for imports, carried a premium because the demand for foreign exchange exceeded its supply at the official exchange rate. The mere existence of the import licensing system and other quantitative restrictions, which restricted the quantity of imports, may be enough evidence to justify the existence of an excess demand for foreign exchange at the official exchange rate. Given the excess demand for foreign exchange, the bonus vouchers were sold at a price once they were placed on the free market. The price of bonus vouchers, or the premium as it was generally called, was determined by the demand for and supply of bonus vouchers.(13)

The demand for bonus vouchers, in fact, the demand to import commodities on the bonus import list, depended among other factors, on the commodity mix of importables under bonus vouchers, the items that could be imported both under bonus and under other import devices, and the amount of foreign exchange allocated by regular licensing for the importation of items included in the bonus import list. Obviously the greater the amount of foreign exchange allocated under regular licensing was, the less was the demand for vouchers, as the cost of foreign exchange through regular licensing procedure was equal to the official exchange rate. Similarly, the larger the number of commodities which could be imported exclusively on bonus, the higher was the demand for bonus vouchers. The supply of vouchers, given the conditions of output production, depended upon the items eligible

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(13) Bruton and Bose (1963,p.77) have pointed out that the level of premium reflected only the equilibrium of demand for, and supply of bonus vouchers. It was not a measure of the over-valuation of Rupee at the equilibrium, because the scheme was not applicable to all exports and all imports, and that all foreign exchange earned was not redeemable by vouchers.

for bonus vouchers, the rates applicable to those items and the proportion of vouchers earned which was placed on the market. If an increased number of items was made eligible for bonus vouchers, and/or the applicable rates were raised and/or a larger proportion of vouchers was placed on the market, the supply of vouchers would go up and vice versa.

The average level of premium on bonus vouchers from 1959-60 to 1971-72 is given in Table 4.2.

TABLE 4.2

Annual Averages of Month-end Premium quotations on Bonus Vouchers.

YEAR (July-June)	Average Premium	YEAR (July-June)	Average Premium
1959 - 60	161.0	1966 - 67	158.4
1960 - 61	123.9	1967 - 68	170.2
1961 - 62	138.3	1968 - 69	180.9
1962 - 63	157.0	1969 - 70	178.2
1963 - 64	153.0	1970 - 71	186.8
1964 - 65	150.3	1971 - 72	193.7(a)
1965 - 66	149.6		

SOURCE: Calculated from (i) Bruton & Bose (1963), Table vi.1, p.81
(ii) Pakistan Economic Surveys (1961-62) Table 71, p.12; (1966-67) Table 41, p.84; and (1970-71)Table 21,p.42 (All Economic Survey tables in statistical sections).

(a) for 1971-72 it is the rate at which the Government compensated the holders of bonus vouchers after the scheme was abolished.

The table shows that from 1960-61 onwards there was generally a rising trend in the average premium on bonus vouchers. It also shows that from 1965-66 onwards, when more and more items were placed on the bonus import list, the average premium rose more sharply. However, these averages hide a large part of the short-run fluctuations in the premium, which have ranged from below 100 to over 200, depending upon the stringency of import policies and changes in other factors affecting the demand for, and supply of bonus vouchers.

Both the changes in bonus rates and the fluctuations in

the premium affected the rupee returns to the exporter. In setting the minimum price for exporting, the exporter would take into account the expected value of the premium as well as the rate of bonus vouchers applicable to his product. Given the rate of bonus , if the premium on bonus vouchers decreased, the exporter would suffer a loss; or given the level of premium, if the applicable rate of bonus was reduced, the exporter again would suffer a loss and vice versa. Soligo and Stern (1966)[14] contended that fluctuations in the premium were not a major source of uncertainty because (a) the monthly average of the bonus premium fluctuated within a narrow range, (b) the unplanned losses could be offset, over time, by unplanned gains and (c) futures market existed for bonus vouchers and the exporter could avail himself of that market to reduce the risk of fluctuations. On the other hand, changes in the bonus rates were generally made by 10 percentage points, which changed the bonus rates by one fourth, one third or even one half in many cases. These relatively large changes had a more serious effect on the returns to the exporter. Therefore, frequent changes in bonus rates were not conducive to the orderly development of the export market.

4.3 Export Performance Licensing Scheme.

The Export Performance Licensing (EPL) Scheme, probably the second most important incentive scheme after the Export Bonus Scheme, was introduced in January, 1962. Under this scheme, different exports were entitled to receive import entitlements at varying percentages (in the initial years at a uniform rate of 100 per cent) of their exports F O B, above and beyond entitlements under normal licensing. Unlike in the Bonus scheme, these entitlements were not freely transferable, but could only be used for the import of raw materials, spare parts, machinery and equipment for balancing and modernization and packing material required by the industry concerned. Export Performance licences were

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(14) Soligo and Stern: (1966, pp.45-48).

intended to ensure that exporters received an adequate supply of imported raw materials at lower world-market prices (plus relevant duties) instead of having to purchase these requirements from commercial importers in the restricted domestic market. Thus, it was a means of providing an indirect or disguised subsidy to exporters. Advance licensing based on an agreed export target was also permitted, but the exporter who ultimately failed to 'earn' them by export performance was subjected to a penalty in the form of bonus vouchers to cover the licences issued.

4.3.1 Evolution of the Scheme.

Attempts to link import licences to actual export performance had been made as early as 1954, when certain selected primary and manufactured commodities were allowed import licences equal to 30 per cent of F O B exports. However, the coverage had been limited and the scheme did not cover more than 1 - 2 per cent of total exports.[15]

The import licensing system which, following the collapse of the Korean war boom, was adopted in late 1952, had provided for direct imports of their requirements by the industries. The industrial import licences were granted basically to the recognised industrial units on the basis of official assessment of their minimum single shift requirements for imports. The system was somewhat rigid and unresponsive to the changing needs of industries in terms of quantities and types of imports required. In an attempt to introduce an element of flexibility and liberalization of imports, some selected industries were given the facility of Automatic Licensing in the July - December 1960 Import Policy. Under this procedure they received initial licences for their import requirements at 100 per cent of their assessed single shift capacity and repeat licences of the same value were issued automatically after proper utilization of previous licences (subject to overall foreign exchange availability). In the next January - June, 1961 import policy 12 industries having export performance or export potential

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(15) Hecox: (1970,p.25) and Hufbauer: (1971, p.69)

within the Automatic Licensing group were selected for special treatment to enable them to expand their export business. Twelve others were accorded similar treatment in the following July - December 1961 import policy. The industries selected for special treatment are listed below in Table 4.3.

TABLE 4.3

Industries receiving special Licensing treatment during 1961.

JANUARY - JUNE 1961	JULY - DECEMBER 1961
1. Sports goods	1. Beer
2. Leather Footwear	2. Biscuits & confectionery.
3. Leather Manufactures	3. Fountain pens.
4. Rubber Manufactures	4. Dry Battery cells.
5. Rubber Footwear	5. Fruit canning & Preservation.
6. Cutlery	6. Gas mantles.
7. Surgical instruments	7. Gramophone records.
8. Fish canned	8. Hosiery.
9. Paints (inc. varnishes)	9. Plywood industry.
10. Toilet requisites (cosmetics)	10. Sanitary and Water Fittings.
11. Electric Fans.	11. Spectacle frames.
12. Leather Tanning.	12. Tanning & leather footwear.
SOURCE: Board of Trade Journal Jan.13th,1961 pp.97-103	SOURCE: Board of Trade Journal July 21st,1961 pp.153-159

Those units within these specified industries which had documentary evidence of export performance to their credit were admitted for automatic licensing facilities and received additional licences for the import of machinery or capital equipment for replacement, balancing and modernization. The non-foreign exchange earning units within these industries, nevertheless, received initial licences at 100 per cent of their assessed capacity but were not entitled to repeat facilities, and were further threatened with reduction of import privileges in the future if they failed to establish themselves in the export market. A direct link

between import privileges and export performance was established in January, 1962 when additional licensing to some selected industries was made contingent upon their actual export performance.

4.3.2 Scope and Coverage.

In the January - June 1962 Import Policy, the additional import licencing to certain export potential industries (numbering 31 including most of the industries given special treatment previously) was linked with their export performance. Those specified industries were given initial licences at the rate of 80 per cent of their entitlements and were allowed additional licensing equal to 100 per cent of the F O B value of their exports. These additional licences could be obtained in advance as well, provided an irrevocable letter of credit opened by the foreign importer or a bank guarantee against a firm export order was presented as evidence. The scope of the EPL Scheme remained essentially limited until June 1964, although some minor additions to the list of industries eligible for performance licensing and some deletions from the list were actually made.[16] The coverage of the scheme was expanded in July 1964, when a list of 90 industries along with their applicable rates of performance licence up to 50% of F O B export value was announced. Since then the expansion of the scheme to encompass more and more industries within its purview continued so that in the July - December 1968 Import Policy as many as 152 industries had been made eligible for additional licensing under the EPL Scheme. Theoretically, all industries (except cotton textiles, jute manufacturing and BIDI) could benefit from this facility of additional licensing against their export performance. In practice, however, it was available only to those industries for which an applicable rate was

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(16) The number of industries eligible for performance licensing up to June 1964 in Import Policies Jan - June 1962, 31; July - Dec. 1962, 35; Jan - June 1963, 33; July - Dec. 1963, 34: Jan - June 1964, 42. SOURCE: 'Board of Trade Journal', various issues.

determined by the Government at the initiative of the industry concerned. Due to Pakistan's commitment with the IMF, the EPL Scheme was terminated on December 31st 1969.(17)

As regards the share of exports covered by the EPL scheme in the total visible exports, it is very difficult to determine. Hecox (1970) has given the following reasons for that. Firstly, the EPL Scheme was administered by the CCI & E which used an industry classification possessing little relation to the commodity-export statistics published by the C.S.O. Secondly, the CCI & E only issued performance licences, both advance issues and final settlements for previous export performances, and did not record the export of industries claiming performance licences. In view of the mixed issuance of performance licences (advance as well as final), the statistics on licences issued in any one period could not simply be converted into the value of commodities exported by dividing the value of licences issued by the percentage rate applicable. Nevertheless, the Export Promotion Bureau has made an estimate of the coverage of EPL Scheme for the years 1964-65 to 1966-67, which is given in Table 4.4.

Table 4.4 shows that in terms of the overall coverage only about one-sixth of total visible exports were eligible for the benefits provided under performance licensing during the years 1964-65 to 1966-67. Moreover, the distribution of performance-licensing exports by ranges of rates shows that the major portion of exports covered received only up to 10 per cent F O B value of exports in additional import licences. However, the rates exceeding 30 per cent grew in importance over the period covered, as may be seen from the table.

4.3.3 Rate Structure.

In January, 1962 when the EPL Scheme was introduced, additional import licences to specified industries were allowed at a uniform rate of 100 per cent of F O B value of exports. From January 1962 to June 1964 the policy of

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(17) Pakistan Economic Survey (1969-70, p.117).

TABLE 4.4

Share of Exports Associated with the EPL Scheme (Per cent)

	1964-65	1965-66	1966-67
(a) Ratio of Performance-Licensing exports to total visible exports.	16.5	16.3	17.8
(b) Distribution of Performance-Licensing exports by ranges of rates.			
(i) items receiving performance-licensing (PLs) not exceeding 10 per cent.	81.5	75.2	67.0
(ii) items receiving PLs exceeding 10 per cent but not exceeding 20 per cent.	2.6	4.0	3.8
(iii) items receiving PLs exceeding 20 per cent but not exceeding 30 per cent.	5.1	3.0	11.1
(iv) items receiving PLs exceeding 30 per cent.	10.8	12.8	18.3

SOURCE: Hecox: (1970, p.32)

issuing special licences against export performance at this uniform rate of 100 per cent continued, but the coverage was restricted to a small number of 'export potential' industries. In July 1964, the coverage of the Scheme was expanded, the rate structure was revised and a number of rates ranging from 10 to 50 per cent of F O B value of exports were permitted. (The list of eligible industries along with the applicable rates as it stood in October 1964 is given in Appendix C). During the period of July 1964 to June 1967, the applicable rates remained relatively steady once they had been determined, although the number of eligible industries was expanded. The period of July 1967 to June 1968 was marked by a rationalization of the rate structure. The applicable rates for certain industries were revised and in January 1968, a general policy of "no rate to exceed 30 per cent of F O B value of exports" was announced. This across-the-board reduction in the maximum applicable rate resulted in bringing down all the higher rates to the 30 per cent ceiling rate. The rate structure in this revised form was continued until the Scheme's termination on December 31st, 1969.

4.3.4 Some Other Aspects.

According to Hufbauer (1971), the Scheme's proper role was either to exempt exporters from the payment of scarcity premia on importable inputs or to compensate them for such payments so that their costs could be brought in line with world prices.[18] The movement of the rate structure from a single applicable rate (100 per cent) in the initial years for all industries, covered by the Scheme to a series of discriminatory rates of up to 50 per cent (and later up to 30 per cent) was probably an effort to achieve this objective. The difference in rates between industries were supposed to reflect different import contents of the export products, and thereby avoid discrimination against 'import-intensive' exports. Thus the specific rates at which additional performance licences were given to each industry were based

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(18) Hufbauer: (1971, pp.69-70).

roughly on the estimated import component of exports. Hecox (1970) maintained that in view of a lack of trained manpower and the technically complicated nature of the information required (not to mention the magnitude of the task of determining rates for all industries) these rates could, at best, be only rough estimates. Moreover, neither indirect import components (of domestically produced intermediate inputs) nor the import component of capital investment were included in this exercise.[19]

As all industries not specifically excluded from the Scheme were, in principle, eligible for performance licensing, and as a large number of rates were allowed to the eligible industries, this led to a proliferation of applications for rate decisions and revisions. The determination of each industry's rate separately coupled with special appeals for increases in rates seems to have flooded the system with additional work. Probably this state of affairs of the EPL Scheme led Frank Child (1968, p.176) to write:

"Export performance licencing is an administrative nightmare of such horrendous complexity as to break the spirit of the ablest bureaucrat. Procedures for establishing eligibility and issue rates are complex and responsibility is split. Supervision of the procedure and enforcement of conditions by the responsible agencies are onerous; costs of compliance on the part of businessmen are unusually high. The system is a channel for political pressure from special economic interests. Any useful purpose served by export-performance licensing can be met by incorporating it into the general bonus-voucher system; EPL should be abandoned forthwith".

Finally, we come to the question of premia on import licences granted under the EPL Scheme. The existence of premia on performance licences arises from the fact that there were quantitative restrictions on the importation of raw materials and spare parts, and that there had been an excess demand and a consequent scarcity of most of the

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(19) Hecox: (1970, p. 29).

imported raw materials in the domestic market. The results of some empirical studies (i.e. Pal (1964, 1965) and Alamgir (1968))[20] also support this view. The difficulty lies in determining the level of this premium. In the case of Bonus vouchers, they were freely transferable and negotiable, and were sold on an organised market. The market quotation was taken as the premium. Unlike the Bonus vouchers, import licences granted under the EPL Scheme could not legally be sold or transferred, nor could the resultant imported commodities be traded. In addition, certain restrictions on the use of performance licences only to import specific raw materials and spare parts, had also been placed. Theoretically, the ideal means of determining premia on performance licences would be to look separately at each market for an imported raw material or spare part, and use the demand and supply situation for the specific item to determine the premium. This is practically impossible, because there are so many sub-markets involved, and the information on the actual eligible items for each industry is not available. Therefore, of necessity, some indirect pieces of information may be used to approximate the level of premia on performance licences. Studies by Pal (1964, 1965) estimated that domestic wholesale prices of licensed intermediate goods exceeded their landed costs, on average, by about 58 per cent and 53 per cent during the periods of June - August 1964, and Dec. 1964 - Feb. 1965 respectively. Another study along similar lines by Alamgir (1968) found the average scarcity premium on the licensed raw-materials to be about 58 per cent for a later period of November 1966 - February 1967. These averages are indicative of the level of scarcity premia, although there were some extreme values within the items studied. Alternatively, Child (1968, p.176) has suggested that performance licences were, in effect, restricted-use bonus vouchers similar to the stamped Bonus vouchers issued to exporters of jute manufactures. The stamped Bonus

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(20) See Chapter 3, Table 3.4.
Pal (1964, 1965), Alamgir (1968) op.cit.

vouchers, prior to 1967, could only be used to import raw materials, spare parts and machinery and equipment for the jute textile industry, as well as for importing capital goods in former East Pakistan (now Bangladesh) by any industry listed in the Industrial Investment Schedule. During this period, the premium on Stamped Bonus Vouchers had only been about one-third of that on regular Bonus Vouchers. In 1967, when certain raw materials (for both former East and West Pakistan) were added to the eligible list of imports under the Stamped Bonus Vouchers the premium on those vouchers jumped quickly to 60 to 80 per cent of the premium on the regular Bonus Vouchers. (21) The experience of placing industrial raw materials on the Stamped Bonus Vouchers import list seems directly relevant for our purposes, because the performance licences were also issued for raw materials and spare parts. As a guide, 60 to 80 per cent of the premium on regular Bonus Vouchers may be taken as a rough approximation of the level of premium on performance licences. This would link the premium level on performance licences to fluctuations in the regular Bonus vouchers premium for which regular quotations were available. At the extreme, if restrictions on the use of performance licences were minimal (as was the case in the earlier years of the EPL Scheme) or the policy to import raw materials and spare parts were more stringent (as was the case after the 1965 Indo-Pak war), the premium on performance licences might have been in the vicinity of the premium on regular Bonus vouchers.

4.4 Tax Exemptions and Tax Rebates.

The Government levies various taxes (import and export duties, excise duties, sales taxes, income taxes etc.) not only as a means of raising revenue, but also as an instrument for achieving certain national objectives. In a developing country these objectives may include, among others, the encouragement of savings and investment, the pursuit of maximum economic growth through rapid capital formation and industrialization, the achievement of an equitable distri-

(21) Lewis, Jr: (1970, p.30).

bution of income and wealth among various regions and classes of society and a rapid expansion of exports.

Import duties are levied on goods imported into Pakistan at various rates (ad valorem or specific) according to the nature of the commodity. Luxury and non-essential imports are subjected to higher rates of duty, while those of a developmental character are charged at lower rates of duty. Apart from being a source of revenue, import duties are also utilized for affording protection to those domestic manufacturing industries which suffer from high costs of production and are unable to withstand competition from imported goods. Similarly, excise duties are imposed, on a selective basis, on the goods manufactured within the country. Exporters have been, and continue to be entitled to a refund of import duties paid on raw materials used in the manufacture of exported goods. Excisable commodities may be exported either on payment of duty under claim for refund, or under bond without payment of duty. Since 1962, the Government has issued licences for Bonded warehouses, in which the exporters can hold excisable goods without payment of excise duties, till they are exported. When commodities using excisable goods in their manufacture are exported, a rebate of excise duty on excisable goods so used, is also allowed.

All goods produced and/or manufactured in Pakistan (except fresh fish, poultry and poultry products) are exempt from sales tax, when exported. If they have incurred sales tax either on raw materials, or at the manufacturing stage, the tax is refunded.

These tax exemptions and tax rebates lower the cost of production of the product meant for export. The rebate of tariffs and indirect taxes on the inputs actually used in the production of exportable goods tends to bring their prices in line with world prices, and thus partially reduces the bias against exports. It increases the competitiveness of exports from the country to that extent. In addition, tax exemptions make the foreign prices of exports differ from domestic prices by the extent of indirect taxes. This makes the foreign market more profitable and thus provides an incentive to expand exports.

We have discussed above three major export promotion schemes, namely the Export Bonus Scheme, the Export Performance Licensing Scheme and tax exemptions and tax rebates. Some other measures of lesser importance (mentioned above) were also employed in order to expand exports from Pakistan. For example, the Pay-As-You-Earn Scheme (PAYE) was introduced by the Government on June 7th, 1962. Under this scheme, an exporter could negotiate a foreign supplier's credit to purchase capital equipment for an industrial project against future payment through export of products of the project. The payment could be made (a) by export of products directly to the supplier country; or (b) through remittances of earnings from the export of products to any other country. The Scheme applied to private projects included in the Industrial Investment Schedule and to public and semi-public sector projects included in the Five-Year Plans. In the first place, applications for the projects were to be sanctioned by the Director General, Investment Promotion and Supplies (in case of industrial projects) or the Ministry of Communications (in case of purchase of ships). Then the terms of repayment were subject to approval from the State Bank of Pakistan, which generally insisted on a repayment period of at least eight years with interest no higher than 8 per cent. Hufbauer (1971, p.72) noted, *"the impact of PAYE is much bigger on paper than in reality..... Of the 115 authorized applications, less than 20 show any signs of implementation. The main difficulty is the State Bank's insistence on comparatively long repayment periods and modest interest rates, given the absence of any repayment guarantees."* The magnitude of export subsidy involved in the PAYE in 1966-67 was less than 0.6 per cent relative to the export subsidies involved in the three schemes discussed above.[22] Similarly, the impact of other mini-schemes on export incentives was insignificant. The institutional arrangements like the establishment of the Export Promotion Bureau, participation in Trade Fairs/ Exhibitions or sending /receiving Trade delegations etc. might have had some effect on export promotion from Pakistan,

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(22) Based on data in Hafbauer (1971, Table 3.3, p.100)

but unfortunately these arrangements defy quantification. It is believed that among the quantifiable export promotional measures the three schemes, i.e. the Export Bonus Scheme, the Export Performance Licensing Scheme, and tax exemptions and tax rebates would capture the bulk of the incentives provided to export trade in Pakistan. We shall, therefore, concentrate on some quantitative aspects of their analysis in the next two chapters. It is hoped that this analysis will encompass the major part of the export incentives and represent a fairly true picture of export promotion in Pakistan.

CHAPTER V

THE EFFECTIVE EXCHANGE RATES FOR EXPORTS.

In the previous chapter we have discussed various export incentive schemes which had been employed for expanding exports from Pakistan. While most of the manufactured goods were given subsidies on their exports, certain primary commodities like raw cotton and fresh fish were subjected to export duties when exported from the country. After the devaluation of the Pakistani Rupee in May, 1972, export duties were levied on a number of commodities. Moreover, fresh fish, poultry and poultry products have been liable to Sales Tax when exported from Pakistan.

Because of the export incentive schemes and the tax measures that Pakistan has applied to its export trade, what exporters actually received for each unit for foreign exchange earned has differed substantially from the country's official exchange rate. In the presence of export subsidies and export taxes, a country's official exchange rate provides a poor guide to the price competitiveness of its exports. Export incentives are determined by what the exporters actually receive for each unit of foreign exchange they earn. Therefore, the appropriate rate for measuring incentives is the effective exchange rate.(1) The effective exchange rate may be defined as the official exchange rate adjusted for export taxes and subsidies. In other words, the effective exchange rate, expressed in units of domestic currency per dollar, is the official exchange rate less export and other taxes plus the subsidies applicable to one dollar's worth of exports. In the following section we shall calculate the effective exchange rates for some specific commodities as well as for some broad sectors of the economy and analyse them.

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(1) The term "effective exchange rate" has been applied to several quite different exchange rate concepts. For example, it has been used as the official exchange rate divided by the cost of living index (Sheahan and Clark (1967)), or as the weighted average exchange rate of a country vis-à-vis its trading partners using the shares of exports going to each trading partner as weights (Donges (1972) and Rhomberg (1976)). We have used this term in this study as defined in the text. Moreover, the effective exchange rate for exports measures the nominal subsidies given to export trade. Corden (1971a) among others has suggested that for an examination of resource allocation an appropriate measure would be the effective subsidy (i.e. subsidy to value-added) similar to that of effective protection, which takes into account the tariffs and subsidies given to both inputs and out-puts. However, due to the non-availability of input-output relationships for Pakistan over time, the latter measure was not used.

5.1 Data and Sources.

Pakistan has compiled and published trade statistics [2] regularly since Independence (i.e. 14th August 1947), covering trade with other countries via sea, land and air routes. Due to a stand-still agreement with India till 31st March 1948, the sea-borne trade with that country was treated as domestic trade. Complete land-borne statistics have been maintained since July 1949. As a result, the data relating to years 1947-48 to 1949-50 have since been revised. Therefore, the trade data published are complete in coverage in the sense that they are inclusive of trade on Government, semi-Government and private accounts, and that the trade via sea, air and land routes has been included. This statement must be qualified because the following are excluded from Export Statistics:

i) Defences stores.
ii) Gold and silver coins or bullion and currency notes.
iii) Non-dutiable articles of baggages and personal effects of passengers.
iv) Dutiable articles of baggage and personal effects of passengers since July, 1960.
v) Trade in transit through Pakistan.

There are two basic sources of information on export data - namely, the Central Statistical Office [(C.S.O.) now Statistics Division in the Ministry of Commerce] statistics, and the State Bank of Pakistan statistics. The two sets of data do not agree with each other because the C.S.O. statistics reflect the physical exit of goods out of the country irrespective of monetary considerations, while the State Bank statistics reflect purely monetary credits on transfer of ownership of money. Apart from this difference in the nature of data published by the two agencies, differences are also attributable to:-

(i) Classification of commodities:-

The C.S.O. follows Standard International Trade Classification (SITC), while the State Bank's classifi-

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(2) The information on the compilation of Trade Statsitics and on the differences in statistics published by the C.S.O. and the State Bank is based upon the explanatory notes to the 'Foreign Trade Statistics of Pakistan'.

cation is designed to suit the local requirements of the Trade Community.

ii) Purpose and source:-

The C.S.O. figures are the by-product of Customs Administration, while the State Bank figures are the result of the accounting needs of exchange control.

iii) Method and basis of valuation:-

The C.S.O. figures are on an F.O.B. basis for exports as declared by the exporters and accepted by customs authorities for realization of duty etc; the State Bank figures are on a mixed C&F/FOB basis and show the actual amount received by exporters for the commodities exported at the current Rate of Exchange.

iv) Coverage:-

The C.S.O. figures include trade by land and parcel post, and the exports of supplies and fuel to ships/air-craft etc., while the State Bank figures do not include them in as much as they do not pass through Exchange Control.

v) Timing:-

The C.S.O. figures are recorded at the time of movement of goods across the country's international border, while the State Bank accounts for them on transfer of ownership of money, and there is generally a time-lag of 3 to 6 months in the transfer of money and physical exit of goods.

Besides these, re-exports (imported goods subsequently re-exported without further processing) were included in the C.S.O. export data up to July, 1967, while the same were not included in the State Bank figures. Due to all these reasons and short-shipment[3] of goods, the C.S.O. figures are

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(3) Short-shipment of goods:- Sometimes the goods for which Shipping Bills are filled by exporters and a copy of which is sent to the CSO may not be shipped in full or in part, due to the non-availability of shipping space, etc. At a later date, when these goods are shipped, fresh shipping bills are again submitted by the exporters to Customs through whom they pass to the CSO. This results in double counting of figures in the CSO. During 1972-73 short-shipments were to the extent of 0.033 per cent of total exports.[Calculated from data in Foreign Trade Statistics of Pakistan, Vol.8, No.4 (April-June 1973 Issue)]

slightly higher than the State Bank figures.

In the present study, the C.S.O. data have been used because (a) they are published according to SITC classification, and (b) they represent the actual export of commodities during a certain period. There may be some element of error in these data on account of errors of measurement, double-counting of short shipments and the inclusion of re-exports up to July, 1967, but it is believed not to be very serious.

From July 1960 onwards, the C.S.O. has published export data according to a commodity classification prepared on the basis of the Standard International Trade classification (SITC-original) covering about 2,500 items. In July, 1963, because of the revision of the SITC-original, the commodity trade classification of Pakistan was also revised and named as the Pakistan Standard Trade classification - Revised [PSTC-(R)]. Since then, this revised classification, which covers about 3,500 items, has remained in force with modifications and extensions at the 6-digit level. The question in the present study was: What level of classification should be used for estimating the Commodity-Specific Effective Exchange Rates for exports? There was really no firm answer to this question. The term "commodity" is rather confusing. It may be applied to the finest detail, or to the sufficiently homogeneous groupings of the detailed classifications. For example, Pakistan in its 1972-73 trade statistics lists 7 varieties of raw cotton. The question is how many commodities are there in this example - one or seven? As another example, the same source lists 21 varieties of cotton yarn (excluding different varieties of cotton thread and yarn of mixed varieties) and 28 varieties of cotton fabrics. How many commodities are there in this case - 21 and 28, or one for each? The answer depends on the use to be made of the classification, and thus depends on whether the products are sufficiently homogeneous as to unit prices, economic uses and market conditions etc. We have chosen to use in fact arbitrarily, the 3-digit level of classification for this study, and even so only for important representative commodities, depending upon the extent of their share in total

exports. It is hoped that they will be sufficiently homogeneous in respect of their market conditions, unit prices and economic uses. The commodities selected have covered from about 69.3 to about 87.9 per cent of total exports in different years under study. The year-wise ratio of these commodities to total exports is given in Table 5.1.

TABLE 5.1:

Ratio of Commodities studied to Total Exports (percentages)

Year	Per cent	Year	Per cent
1959-60	73.95	1968-69	83.07
60-61	72.08	69-70	79.02
61-62	69.30	70-71	79.27
62-63	78.45	71-72	86.22
63-64	76.97	72-73	87.94
64-65	79.61	73-74	80.35
65-66	76.94	74-75	82.97
66-67	83.81	75-76	83.71
67-68	83.42	76-77	80.51

SOURCE: **Calculated from Data in Appendix Table.A.**

The Effective Exchange Rate (EER) for exports, expressed in units of local currency, as defined above, is the official exchange rate adjusted for export and other taxes and subsidies applicable to one dollar's worth of exports. Pakistan has applied a large number of export promotional measures, described in the previous chapter, to its export trade. In order to quantify the export incentives implied by the measures which can be quantified (there are many like the services provided by the Export Promotion Bureau, participation in exhibitions abroad, businessmen's delegations etc. which do not easily lend themselves to quantification), data on all of them are required. It was extremely difficult, if not impossible to obtain data on all schemes. We have, therefore, decided to include in the estimation of EERs the Export Bonus Scheme, the Export Performance Licensing Scheme and tax exemptions and tax rebates on the subsidy side and export duties and sales tax, where applicable, on the tax side. It is

expected that these estimates would capture a major part of the true behaviour of the EERs and thus of the incentives provided by the export promotional schemes. The basic sources of information on the structure, working and export incentives provided by the export promotion schemes are the Government Gazettes - extraordinary, Public Notices, Press Notes and Handouts. If they are difficult to obtain, some alternative sources may provide the required information. The latter course was resorted-to in our case. The Manual of Imports and Exports Control, compiled by the Office of the C.C.I & E. in the Ministry of Commerce, published in Oct. 1964, is a compendium of regulations about export trade and contains complete lists of items eligible for the Export Bonus Scheme and the Export Performance Licensing Scheme, along with the applicable rate for each item. The Pakistan Economic Survey, a pre-budget document, published annually by the Ministry of Finance,Government of Pakistan, provides a review of the economy and performance of the major sectors of the economy during the fiscal year. In addition, it provides information on major changes in economic policies during the year. Pakistan is a member of the International Monetary Fund (IMF). [Since 1950, though its par value was established in March 1951].[4] The IMF's series of 'Annual Reports on Exchange Restrictions'[5] has published since 1950, surveys of the Exchange Systems of member countries as well as some non-member countries. Besides aspects of exchange restrictions or exchange controls, these surveys have included such features as import licensing, advance deposit requirements, import surcharges, export licensing and export incentive schemes, etc., and have listed important 'changes during the year' chronologically.

The Board of Trade Journal (now Trade and Industry Journal) published by HMSO used to publish full details of Pakistan's Import and Export policies up to 1964, since when it has published only the important changes in those policies.

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(4) Andrus and Mohammad (1958,p.301).

(5) Since April 1, 1978 the title has changed to 'Annual Reports on Exchange Arrangements and Exchange Restrictions'.

All these sources, for the period under study, i.e. 1959-60 to 1976-77, were consulted. The Export Bonus Rates applicable to various items in 1963-64 were taken from the Manual of Imports and Exports Control, and the changes in them for the earlier and later periods were incorporated from Pakistan Economic Surveys, Annual Reports on Exchange Restrictions and the Board of Trade Journal. Under the Export Performance Licensing Scheme, the exporters of specified industries had been allowed to import raw materials, spare parts and machinery for balancing and modernization, at a uniform rate of 100 per cent of FOB value of their exports up to June 1964. The specified industries with the additional import privileges for this period were taken from the various issues of the Board of Trade Journal. In June, 1964, the scheme was expanded and the rate structure was rationalized. The new rates permissible to different industries were taken from the Manual of Imports and Exports Control, and the changes in the scheme for the later period were included from the above-mentioned other sources. The export subsidies for different industries implied by tax exemptions and tax rebates expressed as a percentage of FOB export value were taken from Hufbauer (1971). These rates had been calculated on the basis of excise, sales and other indirect taxes imposed on domestic production during 1965-66 and customs duties and other import charges prevailing during 1966-67. Since indirect taxes have been increasing over time, these rates would over-estimate the rebates and exemptions in the earlier years, and under-estimate them during the later period. However, this is not expected to be serious enough to change the level and direction of EERs and the resultant export incentives.

Certain commodities were subject to export duties when exported from Pakistan; particularly, after the devaluation of the Pakistani Rupee in May, 1972. A large number of commodities were placed in this category. The export duties levied on them were taken from the Budget document (1972-73) and the Pakistan Economic Surveys. In most of the cases these duties were specific charges; they were expressed as ad valorem duties.

For example, in 1972-73, the following duties were

payable on the export of rice.

i) Rice Basmati @ Rs 34.00 per cwt.
ii) Rice coarse @ Rs 7.00 per cwt.

In the same year, the exports of rice were as follows:-

	Quantity (tons)	Value ('000'Rs)
i) Rice Basmati	108,922	272,922
ii) Rice Coarse	667,493	863,214

From the export figures, price per cwt. was calculated for each category and the duty was expressed as a percentage of the price, i.e.

	Price per cwt.	Duty per cwt.	Duty as %age of price
i) Rice fine	Rs 125.28	Rs 34.00	27.14
ii) Rice coarse	Rs 64.66	Rs 7.00	10.83

And finally, the weighted duty for the commodity 'Rice' was calculated, using the shares of each item in the total value of export of the commodity 'Rice' as weights, which in this example was:

$$\left[27.14 \times \frac{272,922}{272,922 + 863214} + 10.83 \times \frac{863,214}{272,922 + 863,214}\right] = 14.75\%$$

A similar procedure was adopted for all the years for which a commodity had been liable to export duty, and for all the commodities which were subject to export duties.

A difficulty arose in the case of raw cotton, on which the export duty had remained in force until 21.11.1967, and again after the devaluation. In the earlier years (i.e. until 22.11.1962) different rates of duty had applied to the export of DESI cotton and to superior varieties of cotton. The Foreign Trade Statistics for those years have not shown their respective exports separately, but instead have shown most of the exports against the item - raw cotton, n.e.s. It was not possible to calculate their prices separately. We have, therefore, calculated the Unit Price per bale of cotton (392 lbs), expressing the duty as a percentage of that unit

price and weighting it by 30% of the share of Desi cotton and 70% of the share of other varieties. These weights correspond to the shares of these varieties in the total value of raw cotton in 1961-62 in rupees.

When different rates of duty had applied within the year or the rate of duty was changed within the year, the rates calculated were further weighted by the number of days a certain rate had remained in force within the year. Weighting by number of days a certain rate had applied was also done in the case of the Export Bonus Scheme and the Export Performance Licensing Scheme. An example may elucidate this point. Under the Export Bonus Scheme, Cotton yarn was allowed bonus vouchers at the rate of 20 per cent of F.O.B. exports on 15.1.1959, which was reduced to 10 per cent w.e.f. 22.1.1960. For the year 1959-60 the bonus rate was calculated as follows:-

The rate of 20% remained in force from July 1,1959 - Jan.21,1960 i.e.205 days

The rate of 10% remained in force from Jan.22,1960 - June 30,1960 i.e.160 days.

$$\textbf{The rate for the year 1959-60} = \left(20 \times \frac{205}{365} + 10 \times \frac{160}{365}\right) = 15.62\%$$

We had decided to calculate the commodity-specific Effective Exchange Rates at the 3-digit commodity level. It is evident from the Appendix tables B & C that different items included in these 'aggregate' commodities were allowed different rates of Export Bonus and Export Performance Licensing, which did not correspond to the 'aggregate' commodities. In order to find the bonus and performance licensing rates for the 'aggregate' commodities, the export values of the items, within the 3-digit commodities, enjoying a particular rate were added, expressed as a percentage of the total value of exports of the 3-digit commodity, and were used as weights for calculating the weighted rate for the 3-digit commodity.

Let us take an example. For the sake of simplicity and convenience, we take the year 1964-65 when only two rates of the export bonus (i.e. 20% and 30%) were in force. In the commodity (as we are using this term) yarn and thread (PSTC-651) Cotton and woollen yarn were allowed bonus vouchers at the rate of 20 per cent, while worsted yarn, thread embroidery and

thread sewing etc. were given bonus vouchers at the rate of 30 per cent. In the total yarn and thread exports of Rs.141.6 million, the export of Rs 132.3 million belonged to the former category, while the export of Rs. 9.3 million to the latter. Thus the bonus rate for yarn and thread in 1964-65 was calculated as:

$$\left[20 \times \frac{132.3}{141.6} + 30 \times \frac{9.3}{141.6}\right] = 20.66 \text{ per cent.}$$

In the same year, Nylon gut and Monafilament, thread spooling and woollen yarn etc. which were permitted export performance licencing at the rate of 50% of their FOB exports accounted for Rs. 9.3 million. Therefore, the Export Performance Licencing rate for yarn and thread in 1964-65 was calculated as:

$$\left[50 \times \frac{9.3}{141.6}\right] = 3.28\%$$

As another example in the same year 1964-65, cotton cloth (PSTC 652) exports comprised of mill-made cloth and cloth made by a hand-loom industry, which were further classified as bleached and unbleached, processed and unprocessed and in a number of other ways. The bonus rates of 20 per cent was applied to the exports of unprocessed and semi-processed cloth, while the rate of 30 per cent was allowed on the exports of fully-processed cloth. Out of the total cotton cloth (652) exports of Rs 133.4 million, the exports of Rs 76.4 million pertained to the former category, while the exports of Rs 57.0 million belonged to the latter. The export bonus rate for cotton cloth in 1964-65 was calculated as:

$$\left[20 \times \frac{76.4}{133.4} + 30 \times \frac{57.0}{133.4}\right] = 24.28 \text{ per cent}$$

The additional facility of performance licensing in that year at the rate of 50 per cent of FOB exports was allowed only to the exports of hand-loom fabrics and some cotton-cum-synthetic fabrics. The value of exports attributable to those items amounted to Rs 0.742 million in 1964-65. Therefore, the Export Performance Licensing rate applicable to

the exports of cotton cloth in 1964-65 was calculated as:

$$\left[50 \times \frac{0.742}{133.4}\right] = 0.28 \text{ per cent.}$$

The export bonus rates and the export performance licensing rates for all the commodities studied were calculated in a similar way. The procedure was the same even when more than two rates had applied to items comprising the 3-digit commodity. The rates of bonus and performance licensing thus calculated for the 'aggregate' commodities are given in the Appendix Table D.

5.2 The Estimates of the EERs.

After having computed the relevant rates of the Export Bonus Scheme, the Export Performance Licensing Scheme, the export duties and the sales tax etc. applicable to 3-digit commodities for all the years in which they had been in force, the EERs were estimated in the following way:-

$$EER_i = OER \times (1 + b_i P + EPL_i \times \tfrac{2}{3}p + RT_i - T_i)$$

where:-

EER_i = The effective exchange rate for exports of commodity i, as rupees per dollar,

OER = Official exchange rate as rupees per dollar,

b_i = The bonus rate applicable to commodity i, expressed as a percentage of the FOB value of exports of commodity i,

EPL_i = The export performance licensing rate applicable to commodity i, expressed as a percentage of the FOB value of exports of commodity i,

p = The premium on bonus vouchers (i.e. Annual averages of the month-end market quotations on bonus vouchers),

RT_i = Tax rebates and tax exemptions applicable to commodity i, expressed as a percentage of the FOB value of exports of commodity i,

T_i = Taxes like export duties and sales tax levied on the exports of commodity i, expressed as a percentage of

the FOB value of exports of commodity i.

The amount by which the Export Bonus Scheme provided higher domestic currency earnings than at the official exchange rate per unit of foreign exchange earned was not difficult to determine. The bonus vouchers, being transferable and negotiable, could be sold on an organised market, and the premium on them could be obtained from those quotations. On the assumption that the exporters of commodity i sold all the bonus vouchers in the market, the EER for that commodity was enhanced by the extent of the applicable rate of bonus for commodity i times the premium on bonus vouchers during that period. The difficulty was with determining the level of premium on the Export Performance licences. The import licences granted under this scheme could not legally be sold or transferred, nor could the resultant imported commodities be traded. The surmise that a premium had existed on performance licences follows from the fact that for most of the period the Scheme was in force there had been an excess demand, and a consequent scarcity of imported raw materials and spare parts in the domestic market. Based upon the discussion in the previous chapter, we have assumed the premium on performance licences to equal two-thirds of the premium on regular bonus vouchers, and thus linked it with the premium on which regular quotations were available. This rough approximation would under-state the actual premium on performance licences if the restrictions on the import of raw materials and spare parts were more stringent, and would over-state it in the case of a more liberal import policy. However, since most of the period of operation of the EPL was marked by quantitative restrictions on the importation of raw materials and spare parts and their excess demand in the domestic market, this rough approximation does not appear to exaggerate the level of premium on performance licences. In addition to the effects of the EBS and the EPL on the EERs, the EERs would increase on account of the tax rebates and tax exemptions, while the export taxes would diminish the domestic currency earnings below what they would be at the official exchange rate, per unit of foreign exchange earned.

The estimates of the commodity-specific EERs for exports for the period of 1959-60 to 1976-77 are given in Table 5.2.

Table 5.2 shows that the EERs for raw cotton and fresh fish have been below the official exchange rate for most of the period under study. With the exception of the short period from 22nd November 1967 to 11th May 1972, raw cotton had always been liable to export duty. Fresh fish, in addition to the export duty in some earlier years and again after the devaluation of May 1972, has throughout been subject to sales tax when exported from the country. The EERs for hides and skins rose above the official exchange rate for the period of 1963-64 to 1966-67, when some varieties like pickled hides and skins were granted bonus vouchers, and again during 1970-71 to 1971-72 when all the exports from Pakistan were given the facility of a 10 per cent bonus. The EERs for all other commodities have remained higher (in many cases substantially higher) than the official exchange rate during the period before the 1972 devaluation. From January 1962 to June 1964, when some industries had been granted the facility of additional licences under the Export Performance Licensing Scheme at the rate of 100 per cent of their FOB value of exports, the EERs for canned fish and fish preparations, paints and varnishes, medicinal and pharmaceutical products, perfumery and cosmetics, leather manufactures, footwear and electric machinery etc. became more than double the official exchange rate. This rise in the EERs and the consequentially higher domestic currency earnings from exports would be expected to have reduced the bias against exports and make the export market more attractive at the unchanged official exchange rate. After the devaluation in May 1972, export duties were levied on a number of commodities. As a result, their EERs fell below the official exchange rate. However, in 1974, excluding some primary commodities like raw cotton, rice and fresh fish etc., export duties on most of the other commodities were either removed or lowered.

Over time, the EERs for exports have generally been increasing, although the rate of increase in the EERs for

TABLE 5.2: Estimates of the Commodity-Specific EERs for the period 1959-60 to 1976-77 (Rs per dollar)

YEAR	FISH, Fresh (PSTc 031)	FISH, Canned (PSTc 032)	RICE (PSTc 042)	Non-Alcoholic Beverages (PSTc 111)	Alcoholic Beverages (PSTc 112)	Unmanufactured Tobacco (PSTc 121)	Manufactured Tobacco (PSTc 122)
1959-60	5.51	7.83	5.62	7.83	7.83	6.29	7.83
1960-61	5.11	7.12	5.40	7.12	7.12	5.94	7.12
1961-62	4.96	9.59	5.48	7.39	7.39	6.08	7.39
1962-63	5.21	12.73	5.57	7.75	7.75	6.25	7.75
1963-64	5.08	10.10	5.55	7.64	7.93	6.73	8.15
1964-65	4.73	9.29	5.46	6.91	6.99	6.91	7.18
1965-66	3.87	9.27	5.80	6.90	7.03	6.90	7.16
1966-67	3.87	9.54	6.23	7.02	7.04	7.02	7.03
1967-68	3.87	9.28	6.80	7.66	7.83	7.73	7.74
1968-69	3.87	9.93	7.10	8.20	8.21	8.20	8.29
1969-70	3.87	9.00	7.24	8.15	8.16	8.15	8.16
1970-71	4.46	8.76	7.75	8.75	8.75	8.75	8.75
1971-72	4.86	9.49	8.78	9.71	9.71	9.71	9.71
1972-73	5.96	9.00	9.03	10.60	10.60	10.59	10.59
1973-74	5.57	8.42	8.92	9.90	9.90	9.90	9.90
1974-75	5.57	9.90	9.21	9.90	9.90	9.90	9.90
1975-76	5.57	9.90	8.81	9.90	9.90	9.90	9.90
1976-77	7.43	9.90	9.32	9.90	9.90	9.90	9.90

TABLE 5.2 continued.....

YEAR	HIDES & SKINS (PSTc 211)	RAW COTTON (PSTc 263)	ORGANIC CHEMICALS (PSTc 512)	PAINTS & VARNISHES (PSTc 533)	MEDICINAL & PHARMACEUTICAL PRODUCTS (PSTc 541)	PERFUMERY & COSMETICS (PSTc 553)	SOAPS, CLEANSING & POLISHING PREP. (PSTc 554)	LEATHER TANNED (PSTc611)
1959-60	4.76	3.97	8.34	8.34	8.34	8.34	8.34	8.51
1960-61	4.76	4.15	7.59	7.59	7.59	7.59	7.59	7.75
1961-62	4.76	4.21	7.88	10.22	10.22	10.22	8.18	8.04
1962-63	4.76	4.49	8.26	13.57	13.57	13.57	8.46	8.43
1963-64	4.77	4.51	8.70	8.66	10.73	10.73	10.63	9.63
1964-65	4.90	4.65	8.92	7.87	9.90	9.90	9.73	8.81
1965-66	4.93	4.65	8.14	7.86	9.88	9.88	9.64	8.79
1966-67	5.17	4.64	7.53	8.04	10.20	10.20	9.89	9.01
1967-68	4.76	4.71	8.17	8.74	9.32	9.32	9.25	9.51
1968-69	4.76	4.76	8.76	9.36	9.97	9.97	9.88	10.17
1969-70	4.76	4.76	8.73	8.99	9.29	9.29	9.25	9.49
1970-71	5.65	5.65	9.33	9.33	9.33	9.33	9.33	9.52
1971-72	5.88	5.88	10.35	10.35	10.35	10.35	10.35	10.32
1972-73	6.35	6.35	11.29	11.29	11.29	11.29	11.29	9.79
1973-74	5.94	5.94	10.55	10.55	10.55	10.55	10.55	9.16
1974-75	5.94	6.44	10.55	10.55	10.55	10.55	10.55	10.50
1975-76	5.94	6.44	10.55	10.55	10.55	10.55	10.55	11.01
1976-77	5.94	8.17	10.55	10.55	10.55	10.55	10.55	11.32

TABLE 5.2 continued.....

YEAR	MANUFACTURES OF LEATHER (PSTc 612)	TEXTILE YARN AND THREAD (PSTc 651)	COTTON FABRICS (PSTc 652)	TEXTILE FABRICS (Other than Cotton) (PSTc 653)	TULLE, LACE & EMBROIDERY (PSTc 654)	SPECIAL TEXTILE FABRICS (PSTc 655)
1959-60	8.51	6.67	6.98	7.18	6.29	6.29
60-61	7.75	5.72	6.59	6.74	5.94	5.94
61-62	10.43	5.92	6.75	6.94	6.08	6.98
62-63	13.85	7.20	7.05	7.17	7.00	9.93
63-64	10.95	7.02	7.31	7.17	7.45	6.40
64-65	10.11	7.10	7.23	7.58	7.44	6.35
65-66	10.09	7.21	7.29	8.11	7.37	6.41
66-67	10.37	7.32	7.49	8.82	7.47	6.58
67-68	9.51	7.71	8.16	9.48	7.86	6.98
68-69	10.18	8.34	8.69	10.90	8.43	7.55
69-70	9.49	8.20	8.52	9.44	8.17	7.36
70-71	9.52	8.68	9.15	9.52	8.76	7.87
71-72	10.32	9.30	9.96	10.51	9.71	8.78
72-73	9.79	10.28	10.84	11.97	10.59	10.59
73-74	9.16	9.79	10.51	11.19	9.90	9.90
74-75	10.50	10.63	10.94	11.19	9.90	9.90
75-76	10.77	10.99	10.99	11.19	9.90	9.90
76-77	10.77	10.99	10.99	11.19	9.90	9.90

TABLE 5.2 continued.....

YEAR	ARTICLES OF TEXTILES (Other than clothing) (PSTc 656)	FLOOR COVERING,CARPETS TAPESTRIES ETC. (PSTc 657)	NON-ELECTRIC MACHINERY (PSTc 71)	ELECTRIC MACHINERY (PSTc 72)	CLOTHING (Except fur clothing) (PSTc 841)	FOOTWEAR (PSTc 851)
1959-60	6.42	7.77	8.82	8.82	8.69	8.51
60-61	6.03	7.08	8.02	8.02	7.90	7.75
61-62	6.79	7.34	8.40	9.45	8.66	9.86
62-63	8.46	7.72	8.94	10.56	9.37	12.65
63-64	7.91	7.99	9.45	10.49	11.17	9.75
64-65	7.69	7.59	8.98	10.11	10.31	8.90
65-66	7.68	7.53	8.34	9.88	10.29	9.25
66-67	7.71	7.63	8.39	9.86	10.62	9.88
67-68	8.17	8.46	9.47	10.16	10.30	9.35
68-69	8.60	9.03	10.62	10.71	11.01	9.86
69-70	8.45	8.45	9.86	9.55	9.99	9.21
70-71	8.60	8.70	9.86	9.86	9.71	9.52
71-72	9.51	9.68	10.94	10.94	10.78	10.32
72-73	10.59	10.59	11.93	11.93	11.75	9.79
73-74	9.90	9.90	11.16	11.16	10.99	9.16
74-75	9.90	9.90	11.16	11.16	10.99	10.50
75-76	9.90	9.90	11.16	11.16	10.99	10.77
76-77	9.90	9.90	11.16	11.16	10.99	10.77

different commodities has been different during different sub-periods. Between 1960-61 and 1962-63, the EERs for commodities which had been given the facility of the EPL Scheme, namely fish preparations, paints and varnishes, medicinal and pharmaceutical products, perfumery and cosmetics, leather manufactures and footwear etc., rose sharply and were more than 50 per cent higher than those two years before in 1960-61. However, the share of their value of exports in the total value of exports covered in the study was only about 1.4 per cent in 1962-63. In the same year the EERs for more than 93 per cent of exports were not more than 10 per cent higher than those in 1960-61. Even the very high EERs for the EPL entitled commodities did not last very long, because in June 1964 the EPL Scheme was rationalized, and the entitlement rates were reduced from a uniform rate of 100 per cent value of FOB exports to a maximum of 50 per cent, which resulted in a decline in their EERs. For other commodities the EERs have been rising over time. The general trend of increase in the EERs and the percentage of exports benefitting from that increase may be seen from Table 5.3.

It may be seen from Table 5.3 that whereas the EERs for the majority of exports (i.e. more than 93%) were only up to 10 per cent higher than those in 1960-61, none of the exports except fresh fish remained in that range in 1970-71. The EER for fresh fish in 1970-71 was less than that in 1960-61, because of a high sales tax on its exports. In 1970-71, the EERs for a large number of commodities like beverages and tobacco, inorganic chemicals, soaps, cleansing and polishing products, tanned leather, leather manufactures, carpets and rugs, electric and non-electric machinery, medicinal and pharmaceutical products, paints and varnishes, perfumery and cosmetics, clothing and footwear etc. were 20 to 30 per cent higher compared with those in 1960-61.

Most of these commodities had gained another 10 percentage points in EERs by 1976-77. While in 1970-71 nearly one-fourth of the exports were getting EERs up to 30 per cent higher than those in 1960-61, the proportion of exports in

TABLE 5.3

Percentage increase in EERs over 1960-61 and the distribution of exports benefitting from that increase.

% increase in EERs over 1960-61 (1)	% of Exports entitled to the increase		
	1962-63 (2)	1970-71 (3)	1976-77 (4)
-5.0 to 0	----	3.34	--
0 to 5	29.97	--	--
5 to 10	63.26	--	--
10 to 20	2.12	1.05	--
20 to 30	2.58	17.72	0.02
30 to 40	0.33	37.77	23.67
40 to 50	0.37	17.54	7.70
50 to 60	--	22.57	--
60 to 70	0.76	--	25.11
70 to 80	0.61	--	27.25
80 to 90	--	--	16.84

Percentages in Cols. 2, 3 and 4 are of the total value of exports under study. Columns 2, 3 and 4 may not add to 100 due to rounding.

SOURCE: Calculated from data in Table 5.2 and Appendix Table A.

this range in 1976-77 was negligible. Almost all the exports were getting EERs more than 30 per cent higher compared with those in 1960-61.

Raw cotton, on which the export duty had been decreasing over time, was allowed a bonus of 10 per cent in 1970-71. Consequently, the EERs for raw cotton along with cotton cloth were 30 to 40 per cent higher in 1970-71 compared with those in 1960-61. Although the export duty was reimposed on raw cotton after the devaluation of 1972, the trend of increase in its EER continued, so that in 1976-77 it was nearly double that of 1960-61. Similarly, the EERs for other commodities like rice, thread and yarn, art-silk and synthetic fabrics, woollen fabrics, made-up articles of textiles and tulle, lace and embroidery etc. also showed an increasing trend over time. Compared with 1960-61, the EERs for these commodities were 40 to 60 per cent higher in 1970-71 and 60 to 100 per cent higher in 1976-77. While by 1970-71 the EERs for exports had risen up to 60 per cent above those in 1960-61, by 1976-77 they had risen up to 100 per cent above their level of 1960-61. In 1976-77 nearly 70 per cent of exports were benefitting from the EERs which were 60 to 100 per cent above their level of 1960-61.

5.3 The EERs for Primary vs. Manufactured Exports.

At the time of introduction of the Export Bonus Scheme in 1959, the exports of manufactured commodities were allowed bonus vouchers at the rate of 20 and 40 per cent of their FOB exports, while the exports of primary commodities were excluded from the purview of the scheme. The main reason for that was the country's objective to expand the exports of manufactured commodities. Similarly, the EPL scheme and other export promotional policies were also directed to help the exports of manufactures. On the other hand, major primary exports like raw cotton were subject to export duty on their export from Pakistan. In order to see the extent of differentials in incentives for the exports of primary and manufacturing sectors, we have calculated the weighted EERs for the

two sectors. Raw cotton, hides and skins, unmanufactured tobacco, rice and fresh fish were taken as belonging to the primary sector, and all other commodities under study were included in the manufacturing sector. The value of exports of a particular commodity in each year as a percentage of the total value of exports included in the sector were used as weights. The weighted EERs for primary and manufactured exports are given in Table 5.4.

It is clear from Table 5.4 that the domestic currency earnings from the export of manufactured commodities have remained consisently higher than at the official exchange rate throughout the period under study, except for one year, i.e. 1972-73, when they were slightly below those at the official exchange rate. The reason for the EER for the manufacturing sector being below the official exchange rate in 1972-73 was the levying of export duties on a large number of commodities after the devaluation of 1972. For the period before the devaluation (i.e. 1959-60 to 1971-72) the differential of EERs over the official exchange rate had ranged between about 35 per cent in 1960-61 to about 93 per cent in 1968-69, averaging around 68 per cent for the whole period of 1959-60 to 1971-72, though this differential was low, at about 6% on average, for the period after the devaluation. On the other hand, the EERs for the exports of the primary sector have remained below the official exchange rate for some earlier years of 1959-60 to 1961-62, and again from 1972-73 onwards. For the intervening period of 10 years they remained slightly above the official exchange rate, on average about 9 per cent, though this figure from 1962-63 to 1966-67 was only about 3 per cent. If we exclude the EERs for rice from the calculation of the EERs for the primary sector, the latter remain below the official exchange rate for almost the whole of the period under consideration.

The EERs for primary exports as a ratio of the EERs for manufactured exports ranged between about 58 to 71 per cent for the period of 1959-60 to 1971-72. The average ratio for this period was about 63.5 per cent. After the devaluation, the ratio of EERs for primary exports to the EERs for

TABLE 5.4

The EERs for Primary vs. Manufactured exports (Rs per $)

YEAR	Official Exchange Rate	Effective Exchange Rates		Ratio of Primary EERs to Manufactured EERs as per cent.
		Primary Exports	Manufactured Exports	
1959-60	4.76	4.53	6.92	65.46
60-61	4.76	4.54	6.37	71.27
61-62	4.76	4.71	7.31	64.43
62-63	4.76	4.84	7.98	60.65
63-64	4.76	4.78	7.99	59.82
64-65	4.76	4.87	7.68	63.41
65-66	4.76	4.90	7.85	62.42
66-67	4.76	5.10	8.14	62.65
67-68	4.76	5.18	8.48	61.08
68-69	4.76	5.37	9.23	58.18
69-70	4.76	5.27	8.67	60.78
70-71	4.76	6.27	9.01	69.59
71-72	5.54	6.44	9.75	66.05
72-73	10.59	7.57	10.47	72.30
73-74	9.90	8.28	10.02	82.63
74-75	9.90	8.03	10.55	76.11
75-76	9.90	8.01	10.69	74.93
76-77	9.90	9.03	10.71	84.31

SOURCE: Calculated from data in Table 5.2 and Appendix Table A.

manufactured exports ranged between about 72 to 84 per cent, averaging around 78 per cent. This shows that the terms of trade of the exports of primary commodities relative to the exports of manufactured commodities in terms of domestic currency earnings improved after the devaluation by about 22.8 per cent.

Over time the pattern of change in the EERs for the primary vs. the manufactured exports can be seen from Table 5.5.

Table 5.5 shows that by 1962-63 the EERs for manufactured commodities had risen by more than 25 per cent over what they were only two years previously in 1960-61. During the same period they were only about 6 per cent higher for primary exports, for which they never attained even the 20 per cent mark over 1960-61 during the 10 year period of 1959-60 to 1969-70. However, the EERs for primary exports went up sharply in 1970-71, since when they have kept an upward trend, with some oscillations in 1974-75 and 1975-76. For manufactured commodities the EERs declined somewhat in 1964-65 due to the rationalization of the EPL Scheme, but kept rising after that until 1969-70. The EPL Scheme was again the cause for their decline in 1969-70, because it was terminated in December 1969. Since 1969-70, there has been a steady rise in the EERs for manufactured exports, except in 1973-74. In early 1973, Pakistan revalued its Rupee following the devalation of the U.S. dollar. The official par value of the Pakistani Rupee vis-à-vis the U.S. dollar was adjusted from Rs 11.00 to one U.S. dollar to Rs 9.90 to one U.S. dollar in February, 1973.

Another point worth noting is that while the EERs for the primary exports had always been below the EERs for the manufactured exports for the whole 18 year period under study, the extent of this differential changed markedly between the sixties and seventies. The average index of ratios of the EERs for primary exports to the EERs of manufactured exports (with 1960-61 as 100) changed from approximately 88.6 for the period of 1960-61 to 1970-71 to about 106.7 during the period of 1971-72 to 1976-77 - an increase of about 20.5 per cent. This differential between the EERs for the exports of primary

TABLE 5.5

Indices of the EERs for the Primary and the Manufactured Exports

(1960-61 = 100)

YEAR	EERs for Primary Exports	EERs for Manufactured exports	Ratio for Primary/ Manufactured EERs.
1959-60	99.78	108.53	91.85
60-61	100.00	100.00	100.00
61-62	103.68	114.67	90.41
62-63	106.47	125.21	85.10
63-64	105.15	125.28	83.94
64-65	107.27	120.47	88.98
65-66	107.90	123.18	87.58
66-67	112.37	127.64	87.91
67-68	114.04	133.03	85.71
68-69	118.32	144.82	81.63
69-70	116.03	135.95	85.29
70-71	138.10	141.35	97.64
71-72	141.71	152.95	92.68
72-73	166.65	164.31	101.45
73-74	182.32	157.20	115.94
74-75	176.82	165.49	106.79
75-76	176.24	167.76	105.13
76-77	198.84	167.99	118.30

SOURCE: Calculated from Table 5.4

vs. manufacturing sectors and the change in the magnitude and direction of the differential should have had an impact on the rate of growth of exports of the two sectors, on the growth of the economy, on resource allocation etc. among other things. Higher EERs for manufactured exports implying higher domestic currency earnings from exporting those commodities would provide higher incentives for expanding their exports. The lower EERs, on the other hand, for the export of primary commodities in their raw form would act as a disincentive for their export. As a result, the exports of manufactured commodities would be pushed up, while primary exports would be discouraged. That is, probably, what happened in Pakistan. During the period of 1960-61 to 1970-71, the exports of manufactured goods increased at an annual rate of 21 per cent, whereas the exports of primary commodities increased at a comparatively lower rate of 7 per cent.[6] This rapid rate of increase in the manufactured exports might well have been a response to the higher incentives afforded to them during the sixties. During the seventies, when the relative size of incentives between the manufactured vs. the primary exports changed, their annual rates of increase were 31 per cent and 23 per cent respectively, between 1971-72 and 1976-77. The exports of manufactured commodities which had been increasing at a rate nearly three-times the rate of increase in the primary exports during the sixties, grew only at less than one-and-a-half times the rate of growth of primary exports during the seventies. As far as the growth of agricultural production was concerned, it rose at the rate of about 4.7 per cent per annum during the period of 1960-61 to 1970-71, compared with the 11.4 per cent annual rate of growth of the manufacturing production during the same period. During 1971-72 to 1976-77, the agricultural and the manufacturing sectors both grew at lower annual rates of 2.1 and 4.1 per cent respectively. The pattern of growth in the domestic production of the two sectors was similar to their growth of exports. The manufac-

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(6) The rates of growth for Primary and Manufactured exports are calculated from data in Appendix Table A , while the rates of growth of their domestic production, are based on data in Statistical Table 2.1 in Pakistan Economic Survey (1978-79) pp.9 - 11.

turing output which had increased at a rate of nearly 2½ times the rate of growth of agricultural production during 1960-61 to 1970-71, grew at less than double the rate of growth of the latter during 1971-72 to 1976-77. The higher rates of growth in the manufacturing sector during the sixties might have resulted from a better set of incentives to this sector. However, the discriminatory EERs between the primary as compared to the manufacturing sectors were not the only reason for their differential performance in the fields of exports and domestic production during the sixties and the seventies. There were other reasons too. The whole structure of the Pakistan economy had changed during the 1970's. The dismemberment of the country in December 1971 destroyed the common market of the former East and West Pakistan, and produced inevitable and far-reaching consequences for the economy by forcing changes in its production and trading patterns. Over and above these events, the nationalization of some industries in 1972 further depressed the investment climate in the country. Floods of August 1973 and later troubles at Tarbela Dam, and the oil price hike starting in late 1973 with consequent developments on the international scene would have all contributed to differential performance of primary vs. manufacturing sectors between the 1960's and 1970's. An export duty on raw cotton was a kind of additional subsidy to domestic textile production insofar as it kept the prices of raw cotton lower than world prices. The imposition of an export duty on raw cotton reduced the profitability of its production, and the production of competing crops became more profitable (unless their prices were unduly suppressed). Thus the diversion of resources took place from the production of exportable goods towards food crops for domestic consumption having wider implications for export growth and the growth of the economy. In addition, the lower profitability in the agricultural sector would divert resources to the industrial sector. This was perhaps in line with the strategy of the planners, who had planned to develop the industrial sector rapidly. Lewis (1970, p.149) observed that agriculture was squeezed relative

to manufacturing. He estimated that in the mid-fifties out of approximately $500 million worth of agricultural goods marketed annually, around $300 million were transferred out of agriculture into the manufacturing sector every year.

5.4 The Real Effective Exchanges Rates.[7]

The above analysis was couched in terms of the effective exchange rates measured in current period prices, which may be called as the nominal EERs. The comparison of the nominal EERs at different points in time may not provide a correct measure of the change in export incentives during the intervening period. Both domestic and foreign price levels may have changed during the period. If raw material and labour costs rise faster than the nominal EERs, the margins on export sales may shrink, as producers may not be able to pass the increased costs on to the more elastic world market. The relative attractiveness of exports may also weaken if demand-pull inflation in the domestic market raises domestic prices more than the export prices. Moreover, an increase in the general level of domestic prices would result in a decline in exporters' real income. They may become less keen to expand exports, with the consequence of a deterioration in export performance. For these and similar other reasons, the changes in domestic, as well as foreign prices, should be taken into account in order to calculate the real effective exchange rates.

The 'price-level-deflated' effective exchange rate (PDL-EER) is calculated by deflating nominal EERs for different years by the price level index of the country in question. This PLD-EER shows the 'real' value of the receipts from each dollar's worth of exports expressed in the prices of a given base year. However, the PLD-EER takes into account only the movements in the domestic price level, whereas the exporters real incentives are also affected by the level of foreign prices. The Purchasing-Power-Parity Effective Exchange Rate

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(7) These concepts of real effective exchange rates have been taken from the NBER study ' Foreign Trade Régimes and Economic Development' and Guisinger (1977).

(PPP-EER) has been devised to take into account the movements in export prices along with the movement in domestic prices. The PPP-EER is simply the PLD-EER multiplied by an index of foreign prices. The question is which index of foreign prices should be used? It can be either the unit value index of the country's exports, expressed in units of foreign exchange, or a weighted average of the domestic price indices of the country's major trading partners. While the former has the advantage of focusing on the country's existing exports, it is subject to sharp cyclical swings. It also tends to under-represent the prices of new or potential export products. The average wholesale (or consumer) price index of the country's major trading partners is more in-line with the underlying notion of the purchasing-power-parity theory. But for countries like Pakistan where exports are concentrated in a small group of products - cotton and cotton manufactures, leather and leather manufactures, and rice - the average index of foreign prices may not give a correct picture of the long-term changes in the world prices affecting their exports. On *a priori* grounds, neither index of foreign prices has a clear-cut advantage in the present case.

We have constructed a composite price index from the wholesale price indices of Pakistan's major trading partners, namely the U.S.A., the U.K., West Germany, Japan and Hong Kong, using as weights the shares of exports going to each of these countries in the total exports going to these countries.[8]

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(8) Pakistan's exports going to the U.S.A., the U.K., West Germany, Japan and Hong Kong as a percentage of her total exports in different years were as follows:-

Year (1)	Percent (2)	Year (1)	Percent (2)	Year (1)	Percent (2)	Year (1)	Percent (2)
1959-60	38.7	1964-65	40.7	1969-70	38.0	1974-75	29.4
60-61	54.7	65-66	43.4	70-71	40.9	75-76	35.4
61-62	53.0	66-67	42.6	71-72	58.9	76-77	32.4
62-63	53.0	67-68	45.3	72-73	44.5		
63-64	48.5	68-69	38.9	73-74	33.9		

SOURCE:- Calculated from data in Pakistan Foreign Trade Statistics (various issues).

As another index of foreign prices, the unit values of Pakistan's primary as well as manufactured exports were expressed in dollars, by dividing the unit value indices in domestic currency by the official exchange rate in different years. These indices of foreign prices, along with the indices of domestic prices, have been used to calculate the real EERs.

As noted above, the exporters' incentives will be affected if the prices of inputs going into the production of export goods change, or the domestic prices of exportables vis-à-vis their export prices change, or the consumer prices rise, resulting in the loss of purchasing power of exporters' profits. Ideally, one would like to use an index of domestic prices which takes into account all these effects. None of the consumer or wholesale price indices regularly reported in Pakistan yields a weighted index of all three of these effects, nor can such a composite index be constructed because the weights to be applied in constructing such an index are not known. Therefore, a proxy may be used, but its approximation to the appropriate composite price deflator may not be exact. For example, the general wholesale price index may be used because it reflects the prices of both raw materials and final goods. The general wholesale price index, however, gives considerable weight to export industries and this produces a downward bias in the real EERs. The reason for that is as follows:

An increase in the nominal EERs would be expected to raise the domestic prices of export goods. This alone would tend to push up the general wholesale price index. If then the nominal EERs are deflated by this price index, which has risen solely because of the export incentives, it would give an incorrect measure of the real EERs - a measure biased downwardly. This downward bias will be even greater, if the wholesale price index of a particular sector like the primary or manufacturing sector is used. However, in the absence of an appropriate composite price deflator, we have chosen to use the general wholesale price index and the wholesale price indices of primary and manufacturing sectors for calculating

TABLE 5.6: INDICES OF DOMESTIC AND FOREIGN PRICES (1960 - 61 = 100)

YEAR	Wholesale price index (General)	Composite price index (Pakistan's major trading partners)	Unit-Value index for Primary goods (expressed in $s)	Unit-value index for manufactures (expressed in $s)	Wholesale price index for primary commodities	Wholesale price index for manufactures
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1959-60	95.5	99.5	99.7	N.A	92.4	100.8
60-61	100.0	100.0	100.0	100.0	100.0	100.0
61-62	99.9	101.3	96.9	100.4	102.4	101.8
62-63	98.2	101.3	93.3	95.7	102.2	106.4
63-64	101.5	103.0	89.9	95.0	103.9	107.9
64-65	108.4	105.4	100.5	100.6	116.4	108.0
65-66	106.9	107.9	101.5	105.5	116.1	113.6
66-67	118.7	111.3	95.3	99.5	116.6	117.9
67-68	119.9	113.8	89.6	98.4	97.9	122.8
68-69	123.6	117.5	85.0	99.6	104.6	130.8
69-70	126.2	121.6	87.6	103.4	112.9	135.3

Continued.....

TABLE 5.6: Indices of Domestic and Foreigh Prices (1960 - 61 = 100), continued..... 2.

YEAR	Wholesale price index (General)	Composite price index (Pakistan's major trading partners)	Unit-Value index for primary goods (expressed in $s)	Unit-value index for manufactures (expressed in $s)	Wholesale price index for primary commodities	Wholesale price index for manufactures
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1970-71	131.1	126.9	105.6	97.2	123.1	143.4
71-72	143.5	130.7	101.3	104.4	147.0	152.7
72-73	171.6	139.2	96.2	138.2	145.8	172.1
73-74	218.6	167.1	167.9	231.6	189.6	210.6
74-75	275.7	189.3	152.2	190.6	214.5	287.1
75-76	307.1	201.1	156.1	186.4	245.3	324.3
76-77	322.1	220.2	189.1	238.2	288.5	355.1

SOURCES:- (i) Cols. 2, 6 and 7: Pakistan Economic Survey (1976-77) Statistical Table 26, p.67 changed to base 1960-61 = 100.

(ii) Col.3: Wholesale price indices for USA, UK, West Germany and Japan taken from IMF, "International Financial Statistics", various issues and for Hong Kong from Census and Statistics Department, Hong Kong. "Hong Kong Monthly Digest of Statistics", various issues. Composite price index calculated by weighting the wholesale price indices of these countries by the share of Pakistan's exports going to each of these countries.

(iii) Cols. 4 and 5: Up to 1973-74 from Pakistan Economic Survey (1974-75) Statistical Table 38, pp.98-99, and for the rest Statistical Year book (1977-78), p.260.

the real EERs. These indices and the indices of foreign prices, namely the composite index of wholesale prices of Pakistan's trading partners and the unit value indices expressed in units of foreign exchange, are given in Table 5.6.

Table 5.6 shows that the first half of the 1960s was marked by relatively stable prices in Pakistan as well as in its trading partners (in Pakistan the general level of prices fell between 1960-61 and 1962-63). From 1966-67 onwards, the general level of prices began to rise rapidly in both domestic and foreign markets, and this rise was more pronounced in the domestic market during the 1970s. Moreover, during this period the general wholesale price index of Pakistan always remained above the level of prices of its trading partners. When the behaviour of prices for primary and manufacturing categories is considered separately, a picture different from the behaviour of the general level of prices emerges. While their domestic prices have generally been rising throughout, their unit values are dominated by cyclical swings. The effects of these changes in the domestic and foreign prices on the EERs can be seen from Table 5.7.

An examination of the nominal and real EERs in Table 5.7 shows that for primary exports, the nominal EERs, though they had remained mostly below the official exchange rate, showed a generally rising trend between 1960-61 and 1976-77. This trend, however, was not maintained between the years 1962-63 to 1963-64 and again between 1973-74 to 1975-76, and the rise in the nominal EERs was not uniform over time. While the nominal EERs rose by about 38 per cent between 1960-61 and 1970-71, in 1976-77 they were nearly double their level of 1960-61.

During this period, both indices of domestic prices, i.e. the general wholesale price index and the wholesale price index for primary commodities, had been rising with the exceptions of 1961-62 and 1962-63 for the former and of 1967-68 for the latter when they were below their 1960-61 levels respectively. The rise in these domestic price indices was much faster in the 1970s compared with the rise in them in the 1960s. The PLD-EERs on either index of domestic prices

TABLE 5.7(A)

Nominal and Real Effective Exchange Rates

A.1: Nominal vs. Real EERs for Primary Exports (Rs per U.S.dollar)

YEAR	Nominal EERs	REAL EERS			
		PLD-EERs(I)	PLD-EER(II)	PPP-EERs(I)	PPP-EERs(II)
(1)	(2)	(3)	(4)	(5)	(6)
1959-60	4.53	4.75	4.90	4.73	4.89
60-61	4.54	4.54	4.54	4.54	4.54
61-62	4.71	4.72	4.60	4.78	4.46
62-63	4.84	4.93	4.73	4.99	4.42
63-64	4.78	4.71	4.60	4.85	4.13
64-65	4.87	4.50	4.19	4.74	4.21
65-66	4.90	4.58	4.22	4.95	4.29
66-67	5.10	4.30	4.38	4.79	4.17
67-68	5.18	4.32	5.29	4.91	4.74
68-69	5.37	4.35	5.14	5.11	4.37
69-70	5.27	4.18	4.67	5.08	4.09
70-71	6.27	4.79	5.10	6.08	5.38
71-72	6.44	4.49	4.38	5.86	4.43
72-73	7.57	4.41	5.19	6.14	4.99
73-74	8.28	3.79	4.37	6.33	7.33
74-75	8.03	2.91	3.74	5.51	5.70
75-76	8.01	2.61	3.26	5.24	5.09
76-77	9.03	2.80	3.13	6.18	5.92

A-2: Nominal vs. Real EERs for Manufactured Exports (Rs per U.S.dollar)

YEAR	Nominal EERs	REAL EERs			
		PLD-EERs(I)	PLD-EER(II)	PPP-EERs(I)	PPP-EERs(II)
(1)	(2)	(3)	(4)	(5)	(6)
1959-60	6.92	7.25	6.86	7.21	N.A
60-61	6.37	6.37	6.37	6.37	6.37
61-62	7.31	7.32	7.18	7.41	7.21
62-63	7.98	8.13	7.50	8.24	7.18
63-64	7.99	7.87	7.40	8.10	7.03
64-65	7.68	7.09	7.11	7.47	7.15
65-66	7.85	7.34	6.91	7.93	7.29
66-67	8.14	6.85	6.90	7.63	6.87
67-68	8.48	7.07	6.90	8.04	6.79
68-69	9.23	7.47	7.06	8.77	7.03
69-70	8.67	6.87	6.40	8.35	6.62
70-71	9.01	6.87	6.28	8.73	6.11
71-72	9.75	6.80	6.38	8.88	6.66
72-73	10.47	6.10	6.09	8.50	8.41
73-74	10.02	4.58	4.76	7.66	11.02
74-75	10.55	3.83	3.67	7.24	7.00
75-76	10.69	3.48	3.30	7.00	6.14
76-77	10.71	3.32	3.02	7.32	7.18

SOURCE:- Calculated from data in Tables 5.4 and 5.6 as

(i) Col.3: PLD-EERs(I) = Nominal EERs for Primary or Manufactured Exports deflated by the domestic wholesale price index.

(ii) Col.4: PLD-EERs(II) = Nominal EERs for Primary or Manufactured Exports deflated by the relevant domestic wholesale prices of the Primary or Manufacturing sector.

(iii) Col.5: PPP-EERs(I) = PLD-EERs(I) multiplied by the composite index of wholesale prices of Pakistan's trading partners.

(iv) Col.6: PPP-EERs(II) = PLD-EERs(II) multiplied by the relevant unit value indices of primary or manufactured exports.

TABLE 5.7(B): Indices of Nominal and Real EERs

B.1: Indices of Nominal and Real EERs for Primary Exports (1960-61 = 100)

YEAR	Nominal EERs	PLD-EERs(I)	PLD-EERs(II)	PPP-EERs(I)	PPP-EERs(II)
1960-61	100.00	100.00	100.00	100.00	100.00
61-62	103.68	103.80	101.25	105.17	98.12
62-63	106.47	108.45	104.16	109.89	97.20
63-64	105.15	103.59	101.22	106.72	91.03
64-65	107.27	98.98	92.19	104.37	92.65
65-66	107.90	100.91	92.95	108.96	94.34
66-67	112.37	94.67	96.34	105.35	91.83
67-68	114.04	95.07	116.52	108.16	104.44
68-69	118.32	95.69	113.09	112.43	96.18
69-70	116.03	91.96	102.74	111.86	90.03
70-71	138.10	105.37	112.18	133.77	118.45
71-72	141.71	98.78	96.37	129.06	97.58
72-73	166.65	97.14	114.27	135.18	109.95
73-74	182.32	83.39	96.18	139.34	161.47
74-75	176.82	64.13	82.43	121.38	125.46
75-76	176.24	57.38	71.85	115.39	112.14
76-77	198.84	61.74	68.91	135.96	130.29

B-2: Indices of Nominal and Real EERs for Manufactured Exports (1960-61=100)

YEAR	Nominal EERs	PLD-EERS(I)	PLD-EERs(II)	PPP-EERs(I)	PPP-EERs(II)
1960-61	100.00	100.00	100.00	100.00	100.00
61-62	114.67	114.80	112.64	116.32	113.09
62-63	125.21	127.53	117.68	129.23	112.62
63-64	125.28	123.42	116.11	127.16	110.31
64-65	120.47	111.16	111.55	117.21	112.22
65-66	123.18	115.20	108.43	124.38	114.39
66-67	127.64	107.54	108.27	119.68	107.72
67-68	133.03	110.90	108.33	126.16	106.60
68-69	144.82	117.13	110.72	137.62	110.28
69-70	135.95	107.75	100.48	131.07	103.90
70-71	141.35	107.85	98.57	136.92	95.81
71-72	152.95	106.61	100.17	139.30	104.57
72-73	164.31	95.77	95.47	133.28	131.91
73-74	157.20	71.90	74.64	120.14	172.88
74-75	165.49	60.02	57.64	113.60	109.86
75-76	167.76	54.62	51.73	109.84	96.40
76-77	167.99	52.16	47.31	114.87	112.68

SOURCE: Based on Table 5.7A.

show a rising-falling trend, though the timings of rise or fall do not necessarily coincide. The PLD-EERs based on the general wholesale price index rose between 1960-61 and 1962-63, but fell over the next two years. Then from 1966-67 to 1969-70 remained below their 1960-61 level throughout, because the rise in domestic prices was higher than the rise in nominal EERs. In spite of the fact that the nominal EERs for primary exports had risen very quickly in the 1970s, the general wholesale price index rose even more rapidly during this period. The result was a sharp decline in PLD-EERs in the 1970s, particularly after 1973-74, so that in 1975-76 they were nearly 43 per cent lower than their level of 1960-61. This means that taking into account only domestic wholesale prices, the real value of each unit of foreign exchange earned by the primary exporters declined in the 1970s.

The PLD-EERs based on the other index of domestic prices i.e. the wholesale prices of primary commodities also showed a similar trend, but the timings of rise and fall in them were different. For example, during the period 1967-68 to 1969-70 while the PLD-EERs based on the general wholesale price index were lower than their 1960-61 level, they had remained higher than the 1960-61 level for the same period when based on the wholesale price index for primary commodities. However, from 1973-74 onwards the PLD-EERs based on both price indices showed a deterioration, although its extent was different for the two measures.

The general wholesale price index in Pakistan and the composite price index of its trading partners rose at about the same rate until 1965-66, when they began to diverge (in fact the former remained lower than the latter until 1963-64). The bulk of this divergence took place in the 1970s. After 1970-71, the general wholesale price index in Pakistan increased so rapidly that against a divergence of only 4 points in that year, it had soared to about 106 points above the average index for the countries receiving her exports by 1975-76. The PPP-EERs(I) based on the

general wholesale price index on the domestic side, and the composite price index of Pakistan's trading partners for foreign prices remained above their 1960-61 level for the whole period of 1960-61 to 1976-77.

The point worth noting is that while the nominal EERs had remained on average about 12 and 74 per cent above their 1960-61 level for the periods 1960-61 to 1970-71 and 1971-72 to 1976-77 respectively, the average PPP-EERs(I) were about 10 and 29 per cent higher than their 1960-61 level for the same periods respectively. The significant divergence in the average nominal EERs and the average PPP-EERs(I) during the 1970s was due to the widely different behaviour of prices in the domestic and the foreign markets during that period. The incentives for the export of primary commodities in the 1970s increased on average by 74 per cent over 1960-61 on a nominal basis, whereas in real terms they had not risen above 29 per cent on average over the 1960-61 level. The year-to-year changes in them showed a rising-falling pattern, which in many cases was dissimilar to that of nominal EERs. The years in which the domestic prices went up more than the combined rise in the nominal EERs and the composite index of foreign prices over the previous year, the PPP-EERs (I) registered a decline, even though the nominal EERs had shown a rise in those years. Such years were 1964-65, 1966-67 and 1971-72. Moreover, the rates of year-to-year changes in the nominal EERs and the PPP-EERs(I) were quite different for the two measures of export incentives.

The PPP-EERs(II) based on the domestic wholesale prices of primary commodities and the unit value indices of primary exports expressed in units of foreign exchange focus directly on changes in incentives for primary exports resulting from changes in their nominal EERs and their price movements in the domestic market vs. foreign markets. In the 1960s, the unit value indices remained generally below their domestic prices. During that period, therefore, in spite of the modest improvement in their nominal EERs, the PPP-EERs(II) always remained below the nominal EERs or the PPP-EERs(I),

and showed generally a falling trend. The only exception was the year 1967-68, when their domestic prices were below their foreign prices, and the PPP-EERs(II) showed some improvement above their 1960-61 level. The deterioration in the PPP-EER (II) for primary exports during the 1960s could have acted as a disincentive for their exports with the consequent slower growth rate of their exports and other effects on resource allocation. In the 1970s, the PPP-EERs(II) exhibited a rising-falling pattern. They reached their peak in 1973-74, but fell drastically over the next two years, though picked up slightly again in 1976-77. All the three measures, i.e. the nominal EERs, the PPP-EERs(I) and the PPP-EERs(II) suggest that the profitability from exporting primary commodities increased in the 1970s and their relative position improved in the 1970s compared with their position in the 1960s.

The main thrust of the export promotion schemes in the 1960s was on the exports of manufactures. The nominal EERs for the manufactured exports, therefore, remained considerably higher (about 34 to 93 per cent) than the official exchange rate during that period. In general, the nominal EERs had been rising between 1960-61 and 1976-77, though there were some minor reversals of this trend as well, and the year-to-year rate of increase in them was not uniform during this period.

As for the primary exports, four types of real EERs were constructed for manufactured exports:-

i) the PLD-EERs(I) based on the general wholesale price index in Pakistan,

ii) the PLD-EERs(II) based on the wholesale price indices of manufactured commodities in Pakistan,

iii) the PPP-EERs(I) as the PLD-EERs(I) multiplied by the composite price index of Pakistan's trading partners, and

iv) the PPP-EERs(II) as the PLD-EERs(II) multiplied by the unit value indices of manufactured exports

expressed in units of foreign exchange.

Both types of PLD-EERs peaked around 1962-63 and showed an almost similar rising-falling pattern during the period of 1960-61 to 1976-77. The magnitude of the rise or fall, however, was by no means similar because of the different magnitudes of changes in the two series of domestic prices. Moreover, the pattern of year-to-year rise or fall differed from each other for the two types of the PLD-EERs in 1965-66, 1970-70 and 1971-72. Compared with 1960-61, the rise in the nominal EERs during the 1960s was more than the rise in both indices of domestic prices, so that the PLD-EERs of both types remained above their 1960-61 level in this period. This may be regarded as a successful manifestation of the export promotion schemes. The profitability from exporting manufactured goods remained higher than their sales in the domestic market during this period. Nonetheless, the extent of this profitability had been declining since 1962-63, when only the domestic prices were taken into account. Although the nominal EERs had been rising modestly during the 1970s, the PLD-EERs of both types showed clearly a declining trend after 1971-72. In 1976-77 they were less than half those of 1971-72, and were about 48 to 53 per cent lower than their level of 1960-61. This was due to the fact that domestic prices had risen at a much faster rate than the rise in the nominal EERs during the 1970s.

Both types of PPP-EERs for manufactured exports showed a rising-falling trend between 1960-61 and 1970-71, though their timings were different in many cases. In addition, during this period the PPP-EERs(II) based on domestic wholesale prices of manufactures and their unit value indices expressed in units of foreign exchange always remained below the PPP-EERs(I) which were based on the general wholesale price index in Pakistan, and the composite index of wholesale prices in the countries receiving Pakistan's exports. This was because, during this period, generally the domestic wholesale prices of manufactures increased at a higher rate than the general wholesale price index, and the unit value indices

remained lower than the composite price index, both relative changes tending to depress the PPP-EERs(II). Since the high level of nominal incentives to manufactured exports alone would have raised their domestic prices, the PPP-EERs(II) as a measure of real incentives to them was biased downwards. In the 1970s, while the PPP-EERs(I) had been declining between 1971-72 and 1975-76, the PPP-EERs(II) showed a rapid rise between 1971-72 and 1973-74 and then a drastic decline over the next two years. This may be seen from the fact that the PPP-EERs(II) were about 65.3 per cent higher in 1973-74 compared with their level in 1971-72, and were nearly 44.2 per cent lower in 1975-76 compared with their 1973-74 level. The primary reason for these swings was the major changes in the unit value indices for manufactured exports.

Unlike primary exports, whose profitability from exporting in terms of nominal as well as real EERs, increased in the 1970s compared with that in the 1960s, the position for manufactured exports appears to have deteriorated in the 1970s. In spite of the fact that the average differential of nominal EERs for manufactured exports over their 1960-61 level was somewhat higher during the period 1971-72 to 1976-77, i.e. 62.6 per cent compared with 25.6 per cent during 1960-61 to 1970-71, the average differential in terms of PPP-EERs(I) declined from 24.2 per cent in the 1960s to about 21.8 per cent in the 1970s. The PLD-EERs of both types were substantially lower in the 1970s than their levels in the 1960s. These indicators may be interpreted as showing a deterioration in the profitability from exporting manufactured commodities in the 1970s compared with that in the 1960s. However, the PPP-EERs(II) showed some improvement in the later period over the earlier one, but this must be interpreted with great care. Firstly, this measure had, in the sixties, a downward bias in incentives for exporting, as noted above. Secondly, the improvement in this measure in the seventies was very much influenced by the unprecedented high unit values of manufactured exports in 1973-74, which were not maintained in the later years.

Therefore, this improvement in the PPP-EER(II) in the 1970s over the 1960s is of dubious character. The general conclusion which emerges from the examination of the EERs is that the profitability from exporting manufactured commodities decreased in the 1970s compared with that in the 1960s, and the relative position of primary exports vis-à-vis manufactured exports improved in the 1970s.

5.5 Comparison with some other countries.

Many developing countries, in the 1960s, changed their strategy. They shifted emphasis from import substitution to export promotion. The timing of this shift, and the extent of encouragement afforded to exports were, however, different in different countries.(9)

It is not only the level of real EERs in a country alone that affects its exports. The level of real EERs in other competitor countries may also have an effect on its export performance. If other countries exporting similar products give better real EERs to their exports, then despite an improved absolute level of EERs, the country in question may fail to expand its exports. It is therefore worth while to see the level of real EERs in some other developing countries as well. For the purposes of comparison, the indices of PLD-EERs in some developing countries are given in Table 5.8.

The data in Table 5.8 are not directly comparable, because of the differences in inclusion or exclusion of particular schemes from the construction of EERs in different countries and because of the differences in methods of their calculation.(10) Nevertheless, they may be regarded as indications of the direction of change in the profitability from exporting in those countries. During the 1960s, some countries like Colombia, the Philippines and Pakistan had a successful export-promotional strategy, as can be seen from

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(9) Krueger: (1978, pp.20-21)

(10) For details see Krueger (1978,pp.188-89) and the references cited there.

TABLE 5.8: Indices of PLD-EERs for Non-traditional Exports in Some Developing Countries (1960-61 = 100)

YEAR	BRAZIL	CHILE	COLOMBIA	GHANA	INDIA	ISRAEL	SOUTH KOREA	PHILIPPINES	TURKEY	PAKISTAN
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1960-61	100	100	100	100	100	100	100	100	100	100
61-62	105	93	118	98	101	98	91	110	97	115
62-63	97	96	118	94	101	96	88	115	92	128
63-64	99	97	104	87	96	92	95	113	94	123
64-65	108	100	112	77	93	88	100	116	96	111
65-66	100	110	115	67	102	86	100	120	93	115
66-67	89	109	106	79	101	89	99	116	86	108
67-68	88	103	113	88	92	96	98	110	82	111
68-69	89	104	120	78	96	102	97	108	81	117
69-70	86	N.A.	124	N.A	94	104	99	124	94	108
70-71	81	N.A	127	N.A	92	106	N.A	138	101	108

N.A = Not available.

SOURCE: Cols. 2 to 10 from Krueger (1978), Table 9.2, P.189. The PLD-EERs in that table were for calendar years and with 1958 = 100. They were changed to conform to the trade year of Pakistan by taking a simple average of two years and expressing that as a ratio of 1960-61 = 100. For example, for 1961-62 the average of EERs for 1961 and 1962 was taken and expressed as a ratio of 1960-61 = 100.

Col. 11 from Table 5.7.

the Table. In other countries, the increase in the EERs was short-lived, and as noted by Krueger (1978,pp.186-87) generally the domestic inflation was quite high, so that the PLD-EERs could not be maintained at their 1960-61 level. The nominal EERs for manufactured exports in Pakistan had risen more rapidly than the domestic inflation in the sixties. As a result, the PLD-EERs had remained higher than their 1960-61 level during this period, and the exports became more attractive at an unchanged official exchange rate. Compared with some other developing countries such as India, South Korea and Turkey etc, the PLD-EERs in Pakistan remained higher than the PLD-EERs in those countries during the sixties. This means that during this period, the export trade in Pakistan was more profitable and attractive than that in India, South Korea or Turkey etc. The profitability of exporting from Pakistan relative to the profitability of exporting from many other developing countries, was higher during this period, which may be regarded as a successful manifestation of export promotion schemes of Pakistan.

The examination of the EERs (both nominal and real) for the manufactured exports in the sixties has shown that the export promotion schemes of Pakistan had made their exports more profitable at an unchanged official exchange rate during this period. Not only had the absolute level of real EERs for exports in Pakistan risen, but their level relative to the level of real EERs in many other developing countries had also risen during this period. In the seventies, while the nominal EERs for manufactured exports showed some improvement, the rapid rise in domestic inflation had resulted in a deterioration in their real EERs during this period. On the other hand, the EERs for primary exports had always remained below those for manufactured exports. However, the extent of differential between the EERs for primary exports vs. the manufactured exports decreased during the seventies compared with that in the sixties.

CHAPTER VI

The Response of Exports to the EERs

In the previous chapter, the commodity-specific EERs were constructed, which reflected the effects of Government policy on the incentives to export, and their behaviour between different commodities and over time were discussed. Since the declared objective of Government policies was, among other things, the promotion of exports from the country, it is imperative to see how far they succeeded in achieving this objective. The responsiveness of exports to the EERs is, therefore, discussed in this chapter.

6.1 Variables in a Trade Model[1] and the Analytical Framework.

The export performance of a country is determined by the demand for its exports from the rest of the world and their supply from that country. In international trade text-books the demand for, and supply of exports of a country, is traditionally considered in terms of excess demand and excess supply. The demand for the exports of a country is the demand from the rest of the world for the imports from that country. The demand for imports as an excess demand is the difference between total domestic demand for, and domestic supply of the goods in question in the importing countries. Therefore, in theory the demand for imports is a function of all those variables which determine total domestic supply of, and domestic demand for the importable goods in the importing countries. A distinction between the importable goods as a producer or consumer goods can also be made.

In all cases, price amongst other things determines demand. The price relevant for demand is the one actually paid, i.e. the transaction price, which comprises CIF price, import duties and other taxes, etc. Price is not the only element that reflects the competitiveness and availability of goods. Non-price elements such as servicing, delivery delays

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(1) For a good general discussion on variables in a trade model see Basevi (1973) and Rhomberg (1973).

etc. may also affect demand. All these 'effective price' elements will affect demand for the goods directly when they refer to the same goods and indirectly when they refer to goods which are substitutes or complements for the goods in question. In addition to 'effective price' variables, disposable income will determine consumer's demand, while the level of production or the activity into which the goods enter as an input will determine producer's demand for it. Thus we can write:-

$$x^d = x^d (P, T, E, Y_d, A, ...)$$

where:

x^d = demand for exports of a country from the rest of the world,

P = price of the goods in question including transport costs, etc., and of its substitutes and complements,

T = Tariffs and other taxes,

E = 'Effective-price' elements such as after-sale service, etc.,

Y_d = disposable income, and

A = level of activity into which the goods enter as an input.

The supply of exports is, in principle, an excess supply resulting from the (POSITIVE) difference between total domestic supply of the exportable goods and its internal demand. The excess supply formulation assumes that exports and domestically absorbed exportables are perfect substitutes. If this assumption is accepted, the resulting excess supply should be a function of all those variables which determine total domestic supply and domestic demand for the exportable goods. If the assumption is not accepted, the export supply should be considered as a pure supply function.

In the pure supply case, the producer price of the goods in question is a prime variable determining the profitability of its production. The wage level and the prices of material inputs should thus be included. To take account of the costs of capital, a financial variable might be added. Moreover, if

technology is not assumed to remain constant over the sample period, an index of productivity would be necessary to incorporate possible shifts in the production function. Thus we can write:-

$$X^S = X^S (P, W, Pi, \gamma, \pi, \ldots .)$$

where:

X^S = the supply of exports of a commodity from the country in question,

P = the export price of the commodity,

W = wage rate,

Pi = prices of inputs,

γ = financial variable, and

π = index of productivity.

The analysis of a country's export performance should ideally be based on all the factors affecting the demand for, and the supply of its exports. In that case the model would become very complicated. Abstraction from reality and a compromise between theoretical rigour and practical expediency is a common practice with economists. The aim of the present study is limited. The principal intent is to determine the extent to which Pakistan's exports, during the period of 1959-60 to 1976-77, can be explained by export promotion schemes, or the effective exchange rates. For this purpose in making the small-country assumption, only a single equation model will be used. The small-country assumption essentially means that the world market prices are determined exogenously as far as the country in question is concerned, and the demand for its exports is perfectly price elastic. This assumption seems justified for Pakistan's exports in the light of the relative unimportance of any single export item in world trade. Of course, such an assumption will be invalid for any commodity if its exports are large enough to affect the world price significantly.

If a country is only a marginal exporter of a standardized commodity, then that country has not much influence on

export prices. Such a country has to take export prices as given from outside and the only course of action open to it is to adjust its export supplies. This is similar to the familiar world of pure competition in which any single seller has to accept market prices as given, and then adjust his supplies in the most profitable manner open to him. Theoretically, a seller under pure competition faces an infinitely elastic demand curve for his product at the ruling price, and the only effective limit on the volume of his sales is set by his own willingness and ability to supply goods at that price. On this analogy, the world demand is not a relevant determinant of the export performance of a country which is only a marginal exporter of a standard commodity.

The mere fact that a country is only a marginal exporter of a certain commodity does not, by itself, establish the conclusion that it is operating in a world of pure competition. For even though this country may not have any influence on export prices, these prices may be set only by a few dominant exporting countries, so that the market structure from the point of view of world trade, may in fact, be oligopolistic. In such a case, oligopolists may set the export prices and the marginal exporter may have to follow their lead. In an oligopolistic market environment, the outcome of an attempt by a major exporter to raise its share of the market depends upon the attitude of the oligopolists. In settled market conditions, after a good deal of probing, oligopolists may reckon 'peaceful co-existence' to be the safest, as well as the most practicable policy, to adopt. The price competition resulting from retaliation may turn out to be undesirable from the point of view of the interests of the group as a whole.(2) In such oligopolistic markets, if there are no insuperable technological or other barriers, the small

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(2) This sort of behaviour has been explained by Kahn (1937) in terms of what he calls first, and second degree collusion. Many writers on oligopoly feel that some form of collusion tacit or overt, will eventually emerge. This is also the main theme of Fellner in his book "Competition among the Few", New York, 1949.

exporting country is often able to raise its market share without inviting a retaliatory action from large exporting countries. It is quite unlikely that the large sellers would be willing to upset the existing market equilibrium merely to punish a new intruder of negligible size. Any disciplinary move on the part of any single, large seller may be misconstrued by his rivals as 'aggressive competition' being directed at them rather than at the new small entrant. Thus for fear of being misunderstood by one another, the oligopolists may be forced into inaction, and the new entrant may successfully encroach upon their relative share. Thus, in practice, the ability and willingness to supply exports at world prices are likely to exercise a more important influence than conditions of world demand on the export performance of countries accounting for only a small proportion of world exports of relatively homogeneous commodities. In other words, in all such cases one must look largely to domestic forces in these countries to explain their export performance.

Domestic policies can affect the country's export earnings insofar as they can influence the volume of production of export commodities, the domestic demand for them, and also the terms on which they are made available for export. The Government intervention in export trade through export taxes and subsidies, monetary and fiscal policies and other institutional measures, changes the effective exchange rates. Due to export promotion schemes, the exporters receive increased domestic currency units per unit of foreign exchange earned. What happens when these schemes are introduced?

We can approach the analysis of the effects of the export promotion schemes on export performance in terms of an individual producer.[3] The producer sells part of his product in the domestic market and part of it he also exports. If he maximizes his profit, he will produce where his marginal costs are equal to the marginal revenue in both the markets - domestic and export. The producer will divide his output

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(3) This analysis draws upon Bruton and Bose (1963); Henderson and Quandt (1971), and Tyler (1974).

between sales to the domestic market and to abroad in such a manner that the marginal revenues in each market are equal to each other. Unless the demand curves confronting the producer in the foreign and the domestic markets happen to have the same elasticity at the same prices over the relevant range, the domestic price and the foreign price will not be the same. This seems unlikely enough to be ruled out of consideration. The special case in which both markets are perfectly competitive may also be safely ignored. In this case, the total quantity produced will be sold in the market where price is higher (because price and marginal revenue are identical if the demand curve is horizontal). If both demand curves were horizontal at the same prices, then they would, in effect, constitute the same market and the producer would be indifferent as to the distribution of his sales. We may then conclude that the demand curve in at least one market, domestic or foreign, is negatively sloping.

Let P_d and P_f be the domestic price and foreign price, and E_d and E_f be the elasticities of demand in the domestic and the foreign markets respectively. If the marginal revenues in the domestic and foreign markets are equal, then:-

$$P_d \left(1 - \frac{1}{E_d}\right) = P_f \left(1 - \frac{1}{E_f}\right) \quad (4)$$

Price will, thus, be higher in the market with the less elastic demand curve. Moreover, neither of the two elasticities can be

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(4) That marginal revenue equals average revenue (Price) times $(1-\frac{1}{E})$ can be proved in a number of ways.

Total revenue (R) is price multiplied by quantity sold:

or $R = pq$.

Marginal revenue (MR) is the derivative of total revenue with respect to quantity

or $MR = \frac{dR}{dq} = p + q\frac{dp}{dq} = p\left(1+\frac{q}{p}\cdot\frac{dp}{dq}\right)$ I

But the elasticity of demand (E) at a point on a demand curve is

$$E = -\frac{p}{q}\cdot\frac{dq}{dp}$$

$\therefore$ the second term in the parenthesis in (I) is $(-\frac{1}{E})$ II

Substituting II in I gives:

$$MR = P\left(1 - \frac{1}{E}\right)$$

less than unity; because in that case the marginal revenue would be negative, and no firm would produce at a point where marginal revenue is negative. However, it is reasonable to assume that $E_f > E_d > 1$ for the items that benefitted from export promotion schemes. It is reasonable because those items, offered by a Pakistani exporter, constitute only a very small part of the total supply in the export market; and therefore, changes in the quantity of his export of these items are unlikely to affect export prices very much. On the other hand, the proportion of the protected domestic market supplied by the producer is likely to be much greater than that for the world market. If this inequality holds, then $P_d > P_f$.

In the preceding paragraphs the equilibrium conditions of a producer, selling in the domestic market and abroad, have been outlined. Now the question is what happens when the export promotion schemes are initiated, or the effective exchange rate for exports increases? With the introduction of these schemes, the effective exchange rate for exports increases. The exporter receives higher domestic currency earnings for any given quantity exported. If we denote the increase in the effective exchange rate by (ΔEER), he now receives a price equal to $[P_f + (\Delta EER)P_f]$ [(5)] in rupees for any given quantity exported. The demand curve from abroad, expressed in domestic currency (which is fixed in foreign currency), shifts upwards in the proportion of ΔEER, and the marginal revenue in the export market will also rise. The producer is encouraged to shift his sales from the domestic market to the export market. This can be shown with the help of diagram No. 6.1

In diagram No.6.1 the domestic demand curve is less elastic at a given price compared to the foreign market. The equilibrium output of the producer is at the intersection of the marginal cost curve with the combined marginal revenue curves. Before the introduction of export promotion schemes, a quantity q_1 is produced, and allocated to the two markets

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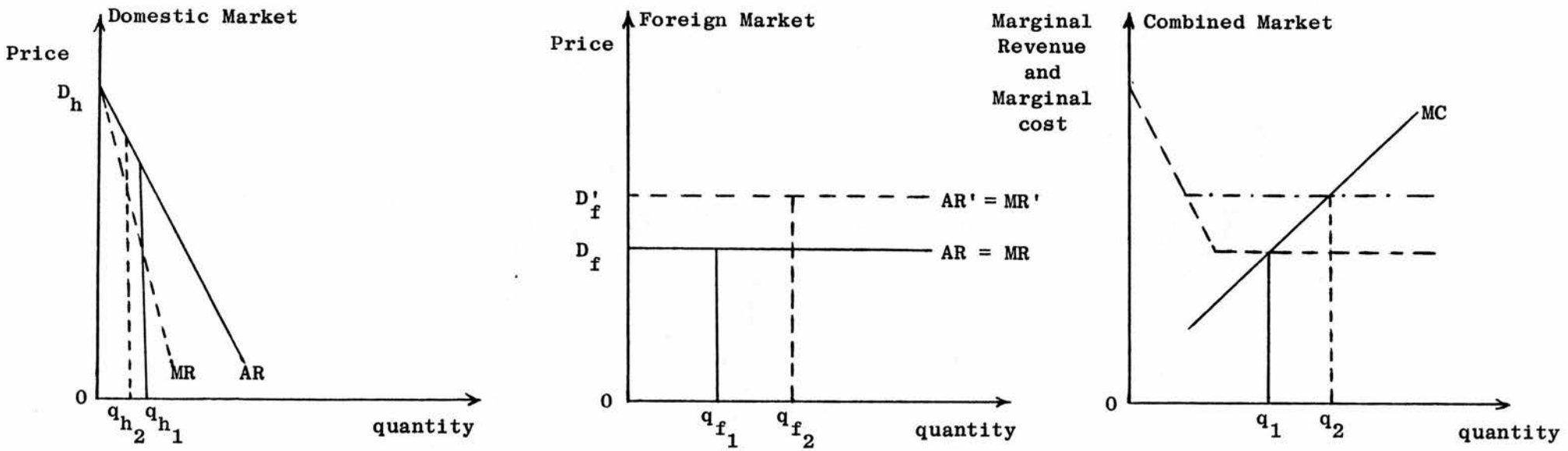
(5) P_f is the price which the foreign importer pays to the Pakistani exporter, converted in rupees at the official exchange rate.

DIAGRAM 6.1: Equilibrium Conditions of a Producer Selling in the Domestic and Foreign Markets.



in such a way that marginal revenue is equal for each market, i.e. q_{h1} in the domestic market and q_{f1} in the foreign market. After the introduction of the schemes, when the effective exchange rate for exports increases, the exporter gets more in domestic currency for a given quantity of the commodity. The demand curve in the foreign market, expressed in domestic currency units, shifts upwards and so does the marginal revenue. Now the exporter produces q_2, and allocates it in the two markets (q_{h2} in the domestic market, and q_{f2} in the foreign market) in order to equate marginal revenues from each market, and to be in equilibrium again. Since the foreign market becomes more profitable, the exporter shifts some quantity ($q_{h1} - q_{h2}$) from the domestic market to the foreign market. These results would hold even if the foreign demand curve were downward-sloping.

The increase in exports will be greater, the more elastic is the marginal cost curve, the domestic demand curve and the foreign demand curve, and the more slowly these elasticities fall as the quantities produced and sold in each market, change. If output cannot be increased, then all increments in exports would be at the expense of the domestic use of the commodity. On the other hand, if domestic demand were completely inelastic over the relevant range, and the output could not be increased, no increase in exports would take place, no matter how great was the elasticity of foreign demand. If the elasticity of domestic demand was low, the marginal revenue in the two markets would be equated with only a small increase in exports. But if a small price rise in the domestic market releases relatively large quantities from the domestic use, i.e. the elasticity of domestic demand is h igh, then it will be possible to increase exports by substantially more. Similarly the elasticity of foreign demand plays an important role in determining the level of exports. Given the domestic demand curve, the marginal revenue of the export market will fall more slowly, the more elastic is the foreign curve and it will take larger increase in exports to re-equate the marginal revenues. In the extreme case of perfectly elastic foreign demand curve, the foreign

market will absorb any quantity of the product that can be supplied.

The above argument is in terms of price elasticities, but over several periods there is also an income effect at work. Therefore, income changes at home and abroad, and income elasticities in the two markets should also be taken into account. The demand curves will tend to move to the right as incomes rise. If the domestic income elasticity of demand is high relative to the foreign income elasticity, then for an equal proportional rise in incomes, it will make the foreign market less attractive. So in the long-run, both foreign and domestic income elasticities become important for the analysis of exports.

The preceding discussion was couched in terms of an individual producing firm. Data are not available for single producing units, so all producers in an industry are lumped together as a giant firm. This introduces some degree of error, but it is thought not to be significant. All producers face approximately the same foreign demand curve. Different producers may have different cost and individual domestic demand curves. These differences, however, would not be so great as to violate the logic of the argument.

6.2 Functional Form of the Model.

We have tried to examine the question whether the export performance, particularly of manufactures, was responsive to the Government's export promotional efforts during the period 1959-60 to 1976-77. Making the 'small country' assumption that the country faces a perfectly elastic demand for its exports in the world market, the so-called 'export function' was estimated.

A number of other studies in recent years have used similar specification of the models to analyse export performance in the developing countries. These studies include among others, Halevi (1972), Tyler (1973), Teigeiro and Elson (1973), Pomfret (1975), Donges and Reidel (1977), Yang (1978), and the NBER Project Country Studies summarised in the Synthesis Volumes by Bhagwati (1978) and Krueger (1978).

The basic model estimated was of the form:-

$$\ln (X_t) = a + b(\ln EER_t) + c(\ln Q_t) + e_t$$

where:

X_t = Export variable, annual observations on quantity or value of exports,

EER_t = Effective Exchange Rate or some other variable of export prices,

Q_t = Index of production, relevant for the category of exports considered, e.g. Index of Manufacturing production for manufactured exports or index of agricultural production for primary exports, and

e_t = error term.

In considering the effects of policy variables on the export performance, the export variable should actually be the physical quantities of exports. Data on physical quantities of exports were not available. Therefore, the value of exports (FOB), expressed in U.S. dollars, data were taken as the dependent variable.

The Foreign Trade Statistics of Pakistan have generally reported the value of exports FOB in rupees: their value in dollars was obtained by dividing the value in rupees by the official exchange rate in different years. This transformation was considered necessary because after the devaluation in 1972, the value of exports recorded in current rupees was inflated merely because of the change in the par value of the rupee. However, value data are the product of quantity and price. Changes in value over time may not accurately represent changes in the quantity of exports. Therefore, to remove the effect of price changes, value of exports data were deflated, where possible, by the unit value index of exports, and these deflated data as well were used as the dependent variable.*

EER_t, the explanatory variable, was the effective exchange rate, i.e. what exporters actually received in domestic currency for each unit of foreign exchange earned.

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* Since the regression results using the deflated value data, or where possible the actual physical quantity of exports data, were generally similar to those obtained by using the dollar value of exports as the dependent variable, the former were not reported in the study.

Various concepts of EERs and their estimates are explained in the previous chapter. However, the choice before the exporters is between producing for exports, or for some domestic use. Therefore a relative price variable was also tried. The relative price variable was obtained by multiplying the index of export prices by the EER and dividing it by an index of domestic prices, i.e. $\frac{P_f \times EER}{P_d}$. Indices of export unit values, expressed in dollars, were taken as indicators of foreign prices.(6) The domestic price index to use depends upon the type of situation being examined. For the exports of manufactured commodities, the index of wholesale prices of manufactures in the domestic market was used. In the case of specific commodities, an index of their wholesale prices in the domestic market can be used. The coefficient of relative price thus specified can be considered a price substitution parameter indicating the price elasticity of exporting vs. supplying to the domestic market. A significant positive estimated coefficient implies that producers are responsive to marginal financial incentives to export.

Leamer and Stern (1970) and Murray and Ginman (1976) among others, have argued however, that the use of relative price variable in the mathematical specification constrains the influence of the two price variables to be equal in magnitude, and opposite in sign. This constraint is suspect and should be tested for the equality of elasticities of export with respect to foreign and domestic prices.

The constraint is suspect on the following grounds:-

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(6) Leamer and Stern (1970) and Kravis and Lipsey (1971) have stressed that one must exercise great care in the use and interpretation of unit value indices. They have pointed out that a unit value index is not a true price index, and there is never any certainty that a change in unit value index represents a change in price. Unit values are values per unit of quantity within detailed export classifications. They cannot be narrowly specified unless their number is increased beyond practical limits. So they are calculated for particular commodity classes of exports by dividing the value of exports of that class by the quantity exported. The unit value index is a weighted average of such unit values. It may change because of the commodity composition or any of the commodity classes quite independently of any price change. Moreover, for many commodities, the quantities are not reported at all, and their unit values are not available. Therefore, only a small percentage of exports is covered in unit value index calculations.

1. If the investigation is limited to manufactured goods or to some more narrowly defined, but still hetrogeneous commodity groups, any individual commodity price is likely to be weighted in the export price index differently than it is in the domestic price index. In many cases, a more general price index for domestic prices such as the wholesale price index, the consumer price index, the GNP deflator etc. is used, in which case the range of goods covered in the domestic price index could differ substantially from those covered in the export price index.

2. Even if it were possible to correctly include only the prices of exportables in the domestic price index, it is possible that the domestic producers hold a preference for domestic over the foreign market in view of the relative ease in selling to the protected domestic market rather than selling in the foreign market, where the competition is tough and a number of other factors make selling in the foreign market more difficult.

Q_t, the second explanatory variable, is the index of production - index of industrial production in the case of manufactured exports; index of agricultural production in the case of agricultural exports, and the index of production of specific commodities in the case of specific commodities. In a developing economy, the transformation curve is expected to shift outwards. Q_t was used as a proxy for the outward shift in the transformation curve.

Besides effective exchange rates, prices in the domestic and foreign markets, and the level of production etc. there are a number of other factors which determine the export performance of a country. Such factors include confidence in the export market, entrepreneurial talent and commercial expertise, transportation infra-structure and the like, and they play an important role in determining export behaviour. In Pakistan, the Government pursued a policy of persuasion, exhortation and pressure in order to encourage the export of manufactures.

Entry into the export market was one of the most effective ways of winning the favour of the government, which exercises considerable direct and indirect control over private enterprises. Compulsory fixation of export quotas, non-fulfilment of which incurred the displeasure of the government, was not uncommon.(7) Unfortunately these factors defy measurement; so it was difficult to capture quantitatively their influence on export performance.

6.3 Some Statistical Problems.

(1) Indentification of the relation.

The above specification of the model resembles an export supply function, in which EER measures movements along the function and Q accounts for shifts in the function. Only under special circumstances would the points obtained from time series of EERs (price) and quantity data fall along the supply curve. This is so becuase there is not only a supply relation, but also a relation between price and quantity demanded. We are using annual EERs (price or relative price) and value as a proxy for quantity of exports historical data, in order to obtain quantitative estimates of the way in which exports of manufactures (or primary products or particular products at a more disaggregated level) responded to EERs. The price and quantity sold each year might be represented as a single point on a diagram, having price measured along one axis, and quantity along the other. The historical data might then be represented as a set of points on a scatter diagram. A line would then be fitted through these points in such a way as to obtain the best fit in some sense.(8) The question is: Can we identify this relation to be the supply relation, and not the demand or some other relation?

If the quantity demanded and supplied depended exclusively on the price, and the rate of exchange were fixed, the point of intersection of the demand and supply curves would be the only point at which they would match. We would be able to observe

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(7) Islam (1969, p.178).

(8) The usual criterion by which a line of best fit is chosen is that of minimizing the sum of squared residuals from the line in a direction parallel to the axis along which the dependent variable is measured.

only this point. Any line passing through this one point would fit perfectly well. We would not be able to determine whether it is the supply relation, or the demand relation, which is the classical problem of identification. However, in our case, the EER is not fixed, but is changing. The change in the EER in itself does not affect the short-run supply curve. The supply of exports from Pakistan is determined by the production function and the under-lying costs of production, technology etc., which would not change rapidly. Industries do not grow up or fade-away in six months or a year. The short-run supply schedule of exports may, therefore, be taken as given. On the other hand, the demand for Pakistan's exports in the importing countries is determined by the import prices, incomes in those countries, tastes and habits and other factors affecting demand. Any positive change in the EERs would shift upwards, in terms of rupees, the demand schedule, which is given and fixed in foreign currency. If the demand curve is infinitely elastic (in the case of the small country assumption), it will shift upwards, parallel to the original demand curve, in proportion to the increase in EER. If the demand curve is less than infinitely elastic (in the case of downward sloping demand curve) it will pivot upwards about the intersection point with the quantity axis in proportion to the increase in the EER. Then the historical points generated by the intersection of the shifting demand schedule and fixed supply schedule would be scattered along the supply curve. In this case, the supply surve will be identified. Particularly with the small country assumption, the points of intersection would all fall along the supply curve, and a true supply relation would be identified. Assuming random variation around the true supply curve, we can still hope to be able to identify the supply curve.

Given that we have some confidence that the supply curve has been identified, it remains to consider what sort of supply function has been identified. We, therefore, conclude this section by considering long-term and short-term effects on supply.

Although the short-run supply curve is not affected by

changes in EERs, the same cannot be assumed over several periods. The working of export promotion schemes in Pakistan allowed for more imports of raw materials and capital goods. This would result in fuller utilization of the existing capacity and/or creation of new capacity. As the Government's announced policy was to continue the export incentive schemes for a number of years, the producers could expect a permanent rise (in terms of rupees) in the foreign demand curve. If the prices of exportables in the domestic market equal those in the export market, they would rise after the introduction of export promotion schemes. The increase in EERs and the resultant shift of quantity from the domestic market to the foreign market will also increase the prices in the domestic market. The higher domestic prices encourage expansion of capacity by the existing firms and/or entry of new firms. Over several periods, therefore, fuller utilization of the existing capacity and/or creation of new capcity would make the supply curve more elastic or would shift it towards the right. If the shift in the supply curve is substantially less than the shift in the demand curve, we can still hope to identify the supply curve. In this case, however, the regression coefficients will estimate neither short-run nor long-run supply response to EERs, but will estimate some combination of the two.

(2) Shifts in the Function.

The trade between former East and West Pakistan, which had been built over nearly a quarter-of-a-century, was disrupted in 1971. After delinking of the Eastern wing from the rest of the country, the exports going to that part were diverted to the international market. This diversion of trade complicates the analysis. One of the objectives among others, of the devaluation of the Pakistani Rupee in May, 1972, was to dispose of this surplus created by the cessation of trade. The discontinuation of trade between the two wings would have caused an upward shift in the export (supply) function from Pakistan. The problem of shift in the function can possibly be dealt with in two ways:-

(i) by the introduction of a dummy variable,

(ii) by treating the exports, expressed at world prices, going to former East Pakistan as international trade, adding them to exports going to the international market for the period before 1971, and thus making the exports time-series 'consistent'.

Both these methods were tried. The data for (ii) on exports going to former East Pakistan, in terms of world prices, were taken from Radhu (1973, p.153). Radhu had estimated the value of inter-wing trade at world prices in the following way:-

1. For those commodities which one region exported to the other region as well as to foreign countries, and could be easily identified, FOB unit values were used to arrive at their value at world prices.

2. For those primary commodities which were not given any export subsidy, their domestic prices were assumed to equal their world prices except for the difference of freight and insurance etc.

3. For the remaining commodities, which were given export subsidy, the differential between the domestic price and world price was approximated by the amount of subsidy originating from the Export Bonus Scheme. To arrive at world prices, their domestic prices were deflated in the following way:-

$$P_w = \frac{P_d}{(1 + bp)}$$

where:

P_w = world price (FOB)

P_d = domestic price,

b = bonus rate, and

p = rate of premium on the bonus.

However, deflating the domestic price by the amount of export bonus alone would over-state the world price, because:-

(i) In addition to the export bonus scheme, there were other export incentive schemes as well, like the export per-

formance licensing scheme, exemption from indirect taxes and tax rebates etc.

(ii) Many commodities entering the inter-wing trade involved domestic prices substantially above the world prices due to import restrictions.

Nevertheless, it is believed that the over-statement of world prices for some of the manufactured goods is not large enough to influence the regression coefficients in any significant manner and make them biased.

6.4 Estimation Results

Both linear and log-linear forms of the regression were estimated. The logarithmic form differed very little from the arithmetic form, and in some cases gave a better fit. In addition, the coefficients of the logarithmic function are easier to interpret. It assumes a constant elasticity between the dependent and the independent variable at all points on the same curve, and the coefficients of explanatory variables can directly be interpret ed as estimates of the elasticity.[9] We have, therefore, reported below only the results of logarithmic estimation.

Some problems in the estimation and interpretation of the results must be spelled out at the outset. First, there is the problem of multi-collinearity. Least squares estimation assumes that there is no linear dependence between the

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(9) The elasticity of Y with respect to X is defined as $(\frac{X}{Y} \times \frac{dy}{dx})$. In the function $Y = Ax^{\beta}$ or $\ln Y = \ln A + \beta \ln X$. To get elasticity of Y with respect to X, substitute for Y in the expression $(\frac{X}{Y} \times \frac{dy}{dx})$, which gives $\frac{X}{Ax^{\beta}} \times \frac{d}{dx}(Ax^{\beta})$,

or $\frac{1}{Ax^{\beta-1}} \times A\beta x^{\beta-1} = \beta$

$\therefore$ β is the estimate of elasticity of Y with respect to X. (Johnston (1972,p.52)).

explanatory variables. Whilst there are few economic variables which exhibit perfect collinearity, it is not uncommon for them to be almost collinear. We should know what consequences to expect if this is the case. If the explanatory variables are highly but not perfectly collinear,[10] the main consequences are:-

i) The precision of estimation falls so that it becomes difficult to disentagle the relative influence of various explanatory variables.

ii) Regression parameters have very high standard errors and we cannot reject the null-hypothesis that the coefficients are not significantly different from zero. The true situation may be not that a variable has no effect but simply that the set of sample data has not enabled us to pick it up.

iii) If the estimated coefficient of one explanatory variable under-estimates its true value, then the estimated coefficient of the other is likely to over-estimate its true value and vice versa. There is a possibility of one explanatory variable being 'robbed of its influence' by the other collinear explanatory variable.

Secondly, in time-series analysis, there is often the problem of serial correlation. Least squares estimation assumes that errors corresponding to different observations are uncorrelated. The assumption of serial independence for the disturbance terms may not be satisfied in time-series studies because of either the high degrees of correlation over time present in the cumulative effects of the omitted variables in the regression model, or because of correlation in the measurement error component of the error term. In the presence of serial correlation, in general, we shall obtain unbiased estimates of the regression coefficients, but the ordinary least squares formulae will give estimates of the standard errors (of the regression coefficients as well as of the regression) smaller than the true standard errors.

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(10) With perfect collinearity, we cannot calculate the least-square parameter estimates.

This will lead to the conclusion that the parameter estimates are more precise than they actually are. There will be a tendency to reject the null hypothesis that the coefficients are not significantly different from zero, when in fact, it should not be rejected. Therefore care must be exercised in interpretting the results.

6.4.1 Regression Results for Manufactured Exports.

Regression results for Pakistan's manufactured exports are given in Table 6.1. Data used are annual observations on both the dependent and the explanatory variables. Regressions 1 through 6 relate the FOB dollar value of manufactured exports (X) to the effective exchange rates for exports (EER), a relative price index (RP), an index of export prices actually received (indomestic currency) by the exporter (PF), an index of domestic wholesale prices of manufactures (PH) and the index of manufacturing production in the country (Q). A dummy variable for the period 1971-2 to 1973-74 was also used to take account of the separation of former East Pakistan from the rest of the country.* Cessation of trade between the two wings of the country was expected to have shifted upwards the export supply function from former West Pakistan. However, given the chaotic situation in the country during the early seventies, some very rapid and perhaps unexpected changes like the nationalization of a number of industries and social and economic reforms establishing new management-employee relations etc. made by the Government would have speeded up re-structuring of the manufacturing sector. The process of re-structuring was reinforced by oil price rises since 1973.

In addition, trade with former East Pakistan, though on a limited scale, was resumed in 1974-75. Later, a general good-will trade agreement was concluded between the two countries in April 1976. The agreement provided for free trade in all items of imports and exports subject to the rules and regulations of each country.(10) As a result, the upward

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* Later, it was recognised that in the treatment of the dummy variable an error had been made. The dummy variable of 1 should have been used for the whole period after the separation of former East Pakistan. Therefore, only the results of regressions for the alternative method of dealing with the separation of former East Pakistan are satisfactory.

(10) Pakistan Economic Survey (1975-76), p.133.

TABLE 6.1: Regression Results for Pakistan's Manufactured Exports. (1960-61 to 1976-77)

	Dependent Variable	EXPLANATORY VARIABLES. Intercept	ln EER_t	ln RP_t	ln PF_t	ln PH_t	ln Q_t	D	$\bar{R}^2$	F-Statistic	DW	SEE
1.	ln X_t	-9.37 (-10.55)**	1.78 (1.57)[a]				1.98 (4.33)**		0.94	135.83	1.44	0.24
2.	ln X_t	-8.86 (-9.55)**	1.23 (1.06)				2.10 (4.68)**	0.24 (1.43)	0.95	98.03	1.29	0.24
3.	ln X_t	-11.78 (-5.26)**		0.62 (1.31)			2.61 (15.52)**		0.94	129.39	1.25	0.25
4.	ln X_t	-9.30 (-3.15)**		0.15 (0.26)			2.55 (14.71)**	0.27 (1.26)	0.94	90.40	1.07	0.24
5.	ln X_t	-9.08 (-12.34)**			0.64 (1.67)	-0.05 (-0.12)	2.09 (9.03)**		0.96	131.96	1.80	0.20
6.	ln X_t	-8.60 (-13.08)**			0.001 (0.002)	0.67 (1.42)	1.92 (9.23)**	0.37 (2.43)*	0.97	137.88	1.86	0.17
7.	ln XA_t	-7.43 (-9.37)**	1.78 (1.76)*				1.65 (4.03)**		0.94	130.16	1.28	0.22
8.	ln XA_t	-9.75 (4.83)**		0.60 (1.40)			2.28 (14.99)**		0.94	121.33	0.97	0.22
9.	ln XA_t	-7.15 (-12.08)**			0.62 (2.01)*	-0.007 (-0.02)	1.73 (9.29)**		0.97	156.78	1.70	0.16

Notes: Figures in Parentheses are the values of t-statistic. Subscript t signifies time-series data used.
ln = Natural logarithms of the variables.
X = FOB value of manufactured exports (i.e. PSTC 5 + 6 + 7 + 8), expressed in US Dollars.

XA = the above FOB value of manufactured exports made consistent by adding the value of manufactured commodities exported to former East Pakistan during the period of 1960-61 to 1970-71. The value of exports to former East Pakistan, expressed at world prices as discussed in the text, was taken from Radhu (1973, p.153), transformed into US dollars, and then added to the value of manufactured products exported to the international market.

.....continued....

Table 6.1 continued.....

Notes contd.

EER = Effective exchange rate i.e. units of domestic currency an exporter actually received for one dollar earned.

RP = Relative price index as defined in the text, i.e. $\frac{P_f \times EER}{PH}$

PF = Index of export unit values after taking into account various export promotion measures included in the Effective Exchange Rates.

PH = Index of wholesale prices for manufactures in the domestic market.

Q = Index of manufacturing production in Pakistan.

D = Dummy variable; 1 for 1971-72 to 1973-74, 0 for all other years.

*, Significantly different from zero at the 5 per cent level.

**, Significantly different from zero at the 1 per cent level.

a, Significantly different from zero at the 7 per cent level.

shift in the export supply function would not have lasted long. In view of this, the dummy variable was included only up to 1973-74. In all the regressions, the intercept term and the coefficient of the index of manufacturing production were highly significant, but the coefficients of EER or other price variables, though of expected signs except in 6, were not statistically significant. In view of the great importance attached to export promotion schemes in Pakistan and the generally held view that Pakistan's export promotion schemes, particularly with regard to exchange rate policy, have been successful in expanding exports from the country, this result needs to be examined carefully. Examination of the data revealed that the EER had remained relatively stable during the period (with mean, 2.17 and standard deviation, 0.15). This relative stability was the result of the Government's deliberate policy to arrest fluctuations in the EERs within narrow limits. This was achieved through changes in rate structure of the Export Bonus Scheme, changes in the bonus import list and allocation of cash foreign exchange resources for direct import licensing etc. Such lack of variation in an explanatory variable presents problems in statistical estimation, of which the most serious was the problem of multi-collinearity between the EER and Q. When the effective exchange rate for manufactured exports increased, their production became more profitable. Resource allocation moved towards manufacturing production. It is not possible to say how much of this production increased due to favourable EERs, and how much of it increased because of other growth factors. There was a very high positive correlation between the EER and Q. Consequently, it is probable that the coefficient of Q included part of the effect of EER on exports. The exact magnitude of this part is not known. Therefore, it may be argued that the statistically non-significant coefficient of the EER or the RP was obtained, not because the export promotion policies were unimportant, but because there was multi-collinearity between the EER and Q, and because changes in the EER over

time were relatively small. Given the small year to year changes in EER, the EER could still significantly affect (not statistically) exporting of manufactures by making it profitable if it was sufficiently higher than the official exchange rate. This most probably was the case.

The dummy variable was of the expected sign suggesting that the delinking of former East Pakistan might have shifted upwards the export supply function from former West Pakistan. In general, the coefficient of the dummy variable was not significantly different from zero and changed the other coefficients. Moreover, in view of the very few degrees of freedom on the dummy variable, we cannot place much confidence on it. Therefore, the dependent variable was adjusted to take account of the exports going to former East Pakistan during the period of 1960-61 to 1970-71. This was done by taking export data on the inter-wing trade, expressed at world prices, from Rahdu (1973), converting it into U.S. dollars and then adding it to exports from former Wast Pakistan to the international market. This would make the export time-series 'consistent' for the period of 1960-61 to 1976-77. This adjustment may be justified on the grounds that

a) former East and West Pakistan were separated from each other by more than 1000 miles of Indian territory or about 3000 miles of sea-voyage;

b) presumably, the exporters from former West Pakistan would not be selling their products to former East Pakistan at prices below what they could get from selling them in the international market (i.e. prices paid by the importers plus export subsidies implied by the export promotion schemes).

Therefore, exports to former East Pakistan, expressed at world prices, may be regarded as exports to the world market for present purposes. Regressions on 'consistent' export time-series were run, the results of which are given in relations 7 to 9 in Table 6.1. These results are consistent with *a priori* beliefs. While the intercept term and the

coefficient of the index of manufacturing production remain highly significant, the coefficient of the EER in 7 also becomes significantly different from zero at the 5 per cent level. This supports the hypothesis that the exchange rate policy did matter in expanding exports from Pakistan. The estimates of parameters in relation 7 mean that for a 1 per cent increase in the EER, there was a 1.78 per cent increase in the FOB value of exports, level of production being held constant; whereas for a given level of the EER, a 1 per cent increase in the index of manufacturing production led to a 1.65 per cent increase in exports. While the numerical precision of these elasticities may be questionable, these results do suggest that both the EER and Q were important in expanding exports from Pakistan. Regressions 8 and 9 produce correct signs for all the coefficients, but the coefficient of the relative price index (RP) in 8 is significant only at the 10 per cent level of significance, and the Durbin-Watson statistic is very low. The presence of serial correlation makes the tests of significance on estimates of parameters doubtful. Therefore, in regression 9 we introduced separate price variables (i.e. PF and PH) for the export market and the domestic market along with Q. The results are quite satisfactory. There is no serious serial correlation as can be seen from the Durbin-Watson statistic of 1.70. The DW lies above the D_u (for k = 3 and n = 17) of 1.58, and is less than 2. R^2 and F-statistic both are very high. The significant coefficient of PF suggests that in spite of a generally falling unit value for manufactured exports,(10) the high EERs made the export market profitable.

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(10) **Unit values for Manufactured exports of Pakistan (1960-61 = 100)**

1960-61	100.0	1965-66	105.5	1970-71	97.2	1975-76	387.6
61-62	100.4	66-67	99.5	71-72	121.5	76-77	495.4
62-63	95.7	67-68	98.4	72-73	307.4		
63-64	95.0	68-69	99.6	73-74	481.7		
64-65	100.6	69-70	103.4	74-75	396.4		

SOURCE: Up to 1973-74 Pakistan Economic Survey (1974-75), Table 38, pp.98-99; for the rest, Statistical Yearbook (1977-78) p.260, which were changed to base 1960-61 = 100.

The coefficient of PH not being different from zero may be taken to mean that the rise in domestic prices for manufactures relative to the subsidies involved in the export promotion schemes was not high enough to make the export market unfavourable. The coefficient of Q is highly significant as usual. However, it must be noted that all these results are in the face of multi-collinearity, which would be quite high between PF and PH, and also between these price variables and Q.

So far in all regressions, the exports in period t have been regressed on the EER or the other price variables and Q in period t. The exporters may not have been able to respond fully to the increased EER or RP in the current period. Time is required for production and delivery; or the exporters may have had contractual obligations in the domestic market. Again some time may be needed before they have confidence in export promotion measures as policies which are going to last. The process of adjustment cannot be measured fully by using current data variables alone; lags need to be taken into account. Omission of lags exaggerates the immediate effect of a given year's price variables and under-states their cumulative effect. Therefore, a partial adjustment model[11] was employed so as to introduce a lagged adjustment of exports to changes in the independent variables.

Let X_t^* be the optimal (expected) value of exports when the EER and other independent variables of period t have had sufficient time to operate, i.e.

$$X_t^* = a + b(EER_t) + C(Q_t) + e_t \qquad .. (I)$$

The adjustment function may be postulated such that the current exports (X_t) adjust from the starting position (X_{t-1}) to the optimal level (X_t^*) by δ 100 per cent, with $0 \leqslant \delta \leqslant 1$:

$$\text{Then } X_t = X_{t-1} + \delta (X_t^* - X_{t-1})$$

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(11) For details see Johnston (1972, pp.300 - 320) and the references cited there.

$$\text{OR} \quad X_t = \delta X_t^* + (1-\delta)X_{t-1} \qquad ..(II)$$

substituting I into II gives:

$$X_t = \delta[a + b(EER_t) + C(Q_t) + e_t] + (1-\delta)X_{t-1}$$

$$\text{OR } X_t = \delta a + \delta b(EER_t) + \delta c(Q_t) + (1-\delta)X_{t-1} + \delta e_t \qquad ..(III)$$

The Constant δ is to be interpreted as a coefficient of adjustment and should fall between zero and one. Its value can be obtained by substracting the coefficient of X_{t-1} in III from one. The closer δ is to unity, the greater is the adjustment made in the current period, and the closer it is to zero the slower the adjustment process will be. The long-run coefficients a, b and c can be calculated by dividing the regression coefficients by one minus the coefficient of X_{t-1}.

The relation of type III for Pakistan's manufactured exports for the period of 1961-62 to 1976-77 was estimated and the results (of log-linear form) are reported in Table 6.2. The results of this exercise look generally better than those without the lag-structure. This means that the introduction of lag-structure was probably important, and the exporters responded to export incentives only partly within the current period. However, in regressions 1 through 4, in which the unadjusted export variable was used as the dependent variable, the coefficient of the lagged dependent variable was not found to be significant except in 4. The dummy variable was also of expected sign but not significant. Therefore relations 5 and 6 were estimated using the 'Consistent' export time-series as the dependent variable. In regression 5 all the coefficients were significant - the intercept term at the 1 per cent level and all other coefficients at the 5 per cent level of significance. The coefficient of the lagged dependent variable suggests that nearly two-thirds adjustment took place in the current period. The long-run elasticity of exports with respect to the effective exchange rate was about 2.51, and that with respect to the index of manufacturing production was about 1.6.

TABLE 6.2: Regression Results of Pakistan's Manufactured Exports (1961-62 to 1976-77)

DEPENDENT VARIABLE	EXPLANATORY VARIABLES							$\bar{R}^2$	F-Statistic	SEE
	Intercept	ln EER_t	ln RP_t	ln Q_t	ln X_{t-1}	ln XA_{t-1}	D			
1. ln X_t	-7.68 (-3.18)**	1.84 (2.10)*		1.37 (2.41)*	0.29 (1.43)			0.97	163.26	0.17
2. ln X_t	-7.18 (-3.19)**	1.40 (1.59)		1.44 (2.66)*	0.29 (1.52)		0.18 (1.50)	0.97	135.86	0.16
3. ln X_t	-9.18 (-2.84)*		0.59 (1.65)[a]	1.82 (2.93)**	0.36 (1.73)			0.97	146.15	0.18
4. ln X_t	-7.05 (-1.92)*		0.25 (0.55)	1.69 (2.72)**	0.38 (1.85)*		0.18 (1.16)	0.97	113.19	0.18
5. ln XA_t	-5.50 (-2.89)**	1.58 (2.04)*		1.01 (2.23)*		0.37 (1.88)*		0.97	179.08	0.14
6. ln XA_t	-6.65 (-2.74)**		0.53 (1.82)*	1.31 (2.71)*		0.47 (2.54)**		0.97	169.17	0.15

Notes:- (i) All variables and symbols are the same as explained in Table 6.1, except

X_{t-1} = X lagged one year.

XA_{t-1} = XA lagged one year.

(ii) a, significantly different from zero at approximately 6 per cent level of significance.

(iii) The DW Statistic is not reported here, because the Durbin-Watson test is not applicable to an equation containing lagged values of the dependent variable among the explanatory variables.

Similarly, in regression 6, the coefficient of the lagged dependent variable is significant at the 1 level and suggests an even slower process of adjustment. It suggests that only about 53 per cent of adjustment was taking place in the current period. This may be plausible in view of the price variable used in this regression, which is the relative price variable. The exporters might need more time to fully appreciate movements of actual prices in both the foreign and the domestic markets. The significant coefficient of RP in regression 6 implies that exporters did respond to export incentives, and the price elasticity of substitution of exporting versus supplying to the domestic market was significant. The significant coefficient of Q implies that the expansion of manufacturing production was export-biased. Whatever questions exist about the numerical precision of these elasticities, the results of regressions 5 and 6 strongly suggest that the elasticity of exports with respect to export incentives was greater than unity. This view is supported by the formulation of the model in 5 and 6 which contains a lagged dependent variable on the right-hand side. Such a model under-estimates the coefficients of explanatory variables. Johnston (1972, pp.304 - 7) has proved that even if disturbances are serially uncorrelated, the presence of a lagged dependent variable among the explanatory variables, and the consequent correlation of the disturbance term with the explanatory variables, will produce biased estimates in small samples. The bias will be downwards and the coefficients will be under-estimated.

6.4.2 Regression results for primary exports.

Similar regressions were performed for the exports of primary commodities; the results are given in Table 6.3. The FOB value of primary exports, expressed in U.S. dollars, was regressed on the effective exchange rate for primary exports (EER), their relative price index defined as the ratio of export prices actually received by the exporters after taking into account the export taxes or subsidies included in the effective exchange rate to their domestic

TABLE 6.3: Regression Results for Pakistan's Primary Exports[(c)] (1960-61 to 1976-77)

DEPENDENT VARIABLE	EXPLANATORY VARIABLES									
	Intercept	ln EER_t	ln RP_t	ln Q_t	ln X_{t-1}	ln XA_{t-1}	$\bar{R}^2$	F-statistic	DW	SEE
1. ln X_t	0.09 (0.05)	2.09 (4.76)**		0.30 (0.69)			0.87	54.07	1.49	0.21
2. ln X_t	-8.23 ** (-3.57) **		1.14 * (1.89) *	1.63 ** (4.05) **			0.73	22.24	1.10	0.31
3. ln XA_t	-0.04 (-0.03)	1.75 ** (4.52) **		0.46 (1.20)			0.88	58.68	1.49	0.19
4. ln XA_t	-6.99 ** (-3.54) **		0.95 * (1.84) *	1.58 ** (4.56) **			0.76	26.12	1.11	0.26
	1961 - 62 to 1976-77									
5. ln X_t	1.55 (0.99)	1.60 ** (2.99) **		-0.18 (-0.42)	0.35 * (1.84) *		0.89	41.64		0.18
6. ln X_t	-3.05 (-1.44)		0.74 (1.57)	0.29 (0.65)	0.66 ** (3.77) **		0.84	27.52		0.22
7. ln XA_t	1.27 (0.92)	1.32 ** (2.84) **		-0.02 (-0.06)		0.36 * (1.86) *	0.90	44.37		0.16
8. ln XA_t	-2.63 (-1.47)		0.65 (1.61)	0.31 (0.76)		0.65 ** (3.76) **	0.86	31.18		0.19

Notes: (i) (c) Primary exports as PSTC 0 + 1 + 2 + 3.

(ii) All variables and symbols are the same as for Tables 6.1 and 6.2, except that in this Table they refer to primary commodities.

wholesale price index (RP), and the index of agricultural production in Pakistan (Q). Both actual exports to the rest of the world and the 'consistent' exports time-series were used as the dependent variable. The dummy variable for the period of 1971-72 to 1973-74 was also tried. The coefficient of the dummy variable was generally of the correct sign, but in no case was it significant. We have, therefore, not reported the results of relations with the dummy variable. The correct sign of the dummy variable might suggest that the disruption of trade with former East Pakistan caused an upward shift in the exports from Pakistan to the rest of the world, but statistically the shift was not significant. The reasons for that might have been, among other things, the bad weather conditions during the early seventies - drought in 1971-72 followed by heavy floods in 1973-74[(12)] - which badly affected the production of agriculture and reduced the exportable surplus of this sector.

The results in relations 1, 3, 5 and 7 all suggest that the effective exchange rate significantly affected the export performance of the primary sector. The exporters responded to changes in the effective exchange rate. The elasticity of primary exports with respect to the EER was more than unity in all cases. In relations 1 and 3, where the current exports were regressed on the current explanatory variables, it ranged from 1.75 to 2.09. This means that for a 1 per cent increase in the EER, the exports increased by 1.75 to 2.09 per cent. The adjustment process was introduced in relations 5 and 7 in the same manner as for manufactured exports. The coefficient of the lagged dependent variable suggests that nearly two-thirds of the adjustment took place within one year. The long-run elasticity of primary exports with respect to the EER given by relations 5 and 7 ranged between 2.06 to 2.46. The numerical precision of these elasticities may be questionable,

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(12) The Pakistan Economic Survey (1973-74), p.33.

but they strongly suggest that the elasticity of primary exports with respect to EER was greater than unity. The exporters of primary commodities, like those of manufactued goods, responded significantly to changes in the EER.

In none of these relations was the coefficient of the index of primary production (Q) found to be significant. Rather in relations 5 and 7, though not different from zero, it had a negative sign. There could be a number of reasons for that:-

i) The level of the EERs for primary exports relative to the EERs for manufactured exports had always been low, as analysed in the previous Chapter. This would have made the production of primary commodities relatively less profitable. The resources would have moved out of this sector into the comparatively more profitable manufacturing sector and/or the production of non-exportable primary commodities might have increased, making the production of the primary sector biased against exports.

ii) Since manufactured exports enjoyed a more favourable effective exchange rate, it was natural to export, whenever possible, the primary commodities in their transformed manufactured form, rather than in the unprocessed form. Raw cottom, raw hides and skins and raw wool etc., the major primary exportable commodities of Pakistan were being used in increasing quantities at home instead of being exported in raw form. Even if their production had increased, in the face of increasing domestic demand, their quantity could fail to affect primary exports.

iii) Institutional arrangements as well played an important role in determining the export performance of primary commodities from Pakistan. Compulsory fixation of export targets in respect of cotton and rice, among other commodities, was not uncommon. The procurement of rice on a monopoly basis by the Government had generally allowed 10 per cent of superior varieties of

rice for domestic consumption.[13] The Trading Corporation of Pakistan, established in July 1967 to act as a counterpart of the State Trading Organisations of the Socialist countries for the implementation of barter trade agreements, was gradually entrusted with additional responsibilities of export trade. Rice and cotton became two important items of export by the Corporation.[14] In 1973, the Cotton Export Corporation, and later the Rice Export Corporation, were made responsible for the export of cotton and rice respectively. The Government, after considering the domestic demand and supply situation for raw materials, could instruct these Corporations whether to enter, or not to enter into any new export contracts. Under these circumstances, the Government calculations would play a greater role than the production index of primary commodities.

However, the negative sign for the coefficient of Q in relations 5 and 7 arouses the suspicion that in the long-run perhaps the resources were transferred from the production of primary exports to other activites.

In relations 2 and 4, the exports were regressed on the index of relative prices for primary commodities and their index of production. The intercept term and the coefficient of Q were found to be highly significant, while the coefficient of RP was significant at the 5 per cent level. This means that given the level of production of primary commodities when the prices in the export market (after taking account of the EERs) were more favourable relative to their prices in the domestic market, the exporters tended to shift some of the commodity from the domestic market to the export market; and given the level of relative prices, when the production of primary commodities increased, their exports were increased also. This may suggest that exporters were responsive to EER variations, which in the present context were included in the export price index.

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(13) The Pakistan Economic Survey (1973-74), p.27.
(14) Government of Pakistan "Government Sponsored Corporations"(1973-74) p.170.

Similarly, whenever the production of primary commodities increased, probably due to favourable weather conditions, the surplus, after having met the domestic requirements, was sold into the foreign market. These relationships were found only when the current values of all the variables were used in the regressions. When the lagged dependent variable was included among the explanatory variables, all the coefficients except the one for the lagged dependent variable became non-significant. This may be because, over time, the index of unit values for primary exports had exhibited a rising-falling pattern, and the EERs as well had not been high enough to make the exporting of primary commodities profitable in the long-run. Similarly, the production of the primary sector was probably biased against exports in the long-run.

From the discussion of the regression results for the manufacturing and the primary sectors and other evidence analysed so far, it may be concluded that the exporters both of manufactured goods and of primary commodities responded significantly to the effective exchange rates. The exchange rate policy played an important role in expanding exports from Pakistan. Since the export promotion schemes afforded favourable treatment to the manufactured exports, their EERs were more favourable. Consequently the growth of the manufacturing sector was biased towards exports. On the other hand, the primary sector was given less favourable treatment and the EERs assigned to this sector were comparatively lower. As a result, the growth of the primary sector over time turned out to be biased against exports.

6.4.3 Regression results for 'diaggregated' exports.

After having analysed the relation of exports to the EERs and Q for the manufacturing and primary sectors, it seems pertinent to analyse a similar relation in respect of some 'disaggregated' commodities. For this purpose, the FOB value of exports, expressed in U.S. dollars, for some commodities at PSTC 3-digit level, was regressed on the EERs

and Q for the commodity in question; when Q was not available, time was used as a proxy. The results are given in Table 6.4. Relations 1 through 4 and 8 in Table 6.4 present regression results for a major export of Pakistan, i.e. raw cotton and cotton manufactures. The coefficient of the EER for raw cotton was not different from zero, while Q was found to affect its exports significantly. The Government policy towards exports of raw cotton, and perhaps weather conditions, may have been the reason for this. For most of the period under consideration, the export of raw cotton had been subject to export duty, which meant an unfavourable rate of exchange for the export of raw cotton. Given the generally less profitable exports of raw cotton, the Government, after taking into account the domestic demand for, and supply of raw cotton situation, would fix export targets for raw cotton. The years in which favourable weather conditions resulted in a bumper crop or in which the domestic activity in textile industry was low, were characterised by mounting surpluses of raw cotton. This surplus was then likely to be disposed of in the export market. This is perhaps why only Q has affected the exports of raw cotton significantly, and the EER has had no effect on its exports. The Government policy, throughout the period of 1960-61 to 1976-77 has aimed at increasing the exports of manufactures. All the export promotion schemes were directed towards this objective. The regression results for yarn and thread, cotton fabrics, clothing and made-up articles of textiles are generally consistent with the *a priori* belief that the EERs for these commodities significantly affected their exports, and that their domestic production was export-oriented. However, the Export Bonus Scheme for yarn and thread had been less certain in its effect in the earlier years. The rate of bonus vouchers allowed to cotton yarn and thread was reduced from 20 per cent to 10 per cent w.e.f. 22nd January, 1960. Later, their exports were totally excluded from the purview of the scheme from 30th January 1961, and were not allowed a bonus of 10 per cent until 21st August 1962. Even after that there had been minor changes in the bonus rate allowed to cotton yarn and

TABLE 6.4: Regression Results on some 'Disaggregated' at 3-digit level Commodity exports from Pakistan (1960-61 to 1976-77)

No.	Dependent Variable. and PSTC Code	EXPLANATORY VARIABLES						$\bar{R}^2$	F-Statistic	DW	SEE
		Intercept	ln EER_t	ln Q_t	Time	ln EER_{t-1}	ln Q_{t-1}				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1.	Raw cotton. (263)	-4.18 (-1.58)	-0.61 (-0.86)	1.53 (2.97)**				0.34	5.04	2.15	0.43
2A.	Textile Yarn & Thread. (651)	16.28 (-4.53)**	1.16 (0.67)	3.17 (2.62)**				0.81	35.14	1.53	0.55
2B	Textile Yarn & Thread. (651)	-13.45 (-5.06)**		1.73 (1.97)*		3.67 (2.78)**		0.87	56.41	1.23	0.45
3A.	Cotton Fabrics (652)	-9.34 (-1.92)*	4.98 (12.02)**	0.38 (0.52)				0.90	72.47	0.97	0.31
3B.	Cotton Fabrics (652)	-22.76 (-4.53)**				4.56 (11.64)**	2.66 (3.20)**	0.93	101.05	1.21	0.27
4.	Clothing (except fur) (841)	-10.28 (-5.42)**	4.00 (4.64)**		0.25 (14.39)**			0.97	309.07	1.72	0.25
5.	Textile Fabrics (not cotton fabrics) (653)	-17.51 (-7.81)**	7.07 (7.84)**	0.88 (4.28)**				0.80	33.98	1.43	0.69
6.	Tulle, Lace and embroidery. (654)	-14.48 (-2.90)**	5.04 (1.79)*		0.16 (1.67)			0.89	62.59	1.48	0.61
7.	Special Textile fabrics (655)	-1.95 (-1.84)*	0.05 (0.09)		0.10 (4.13)**			0.69	17.36	1.28	0.31
8A	Made-up articles of Textiles (not clothes) (656)	-3.94 (-2.03)*	1.29 (1.25)		0.30 (9.90)**			0.97	308.20	1.89	0.28

contd.....

TABLE 6.4: Regression Results on some 'Disaggregated' at 3-digit level Commodity exports from Pakistan (1960-61 to 1976-77)

No.	Dependent Variable. and PSTC Code	EXPLANATORY VARIABLES						$\bar{R}^2$	F-Statistic	DW	SEE
		Intercept	ln EER_t	ln Q_t	Time	ln EER_{t-1}	ln Q_{t-1}				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
8B	Made-up Articles of Textiles (not clothes) (656)	-5.63 (-3.26)**			0.27 (9.23)**	2.25 (2.38)*		0.98	391.69	2.20	0.24
9A.	Carpets, floor covering tapestries etc. (657)	-0.38 (-0.15)	0.25 (0.18)		0.23 (6.69)**			0.95	169.22	0.89	0.26
9B.	Carpets, floor covering tapestries etc. (657)	-3.69 (-1.76)*			0.19 (6.96)**	1.98 (1.79)		0.96	209.22	1.08	0.23
10.	Hides and skins. (211)	-4.55 (-0.98)	4.40 (1.41)		-0.19 (-2.76)**			0.35	5.37	1.70	0.72
11.	Tanned Leather (611)	-4.39 (-2.31)*	2.27 (2.66)**		0.23 (13.12)**			0.92	91.27	0.89	0.33
12.	Manfrs. of leather (not footwear) n.e.s (612)	-7.31 (-1.54)	0.98 (0.51)		0.37 (5.13)**			0.73	23.04	0.39	1.02
13.	Footwear (851)	-2.04 (-0.95)	0.66 (0.73)		0.19 (6.79)			0.81	35.64	1.14	0.43
14,	Rice (042)	2.15 (0.37)	6.12 (2.99)**	-1.37 (-1.09)				0.70	19.45	0.74	0.56
15.	Unmanufactured tobacco. (121)	-32.05 (-8.04)**	11.05 (10.74)**	2.03 (2.92)**				0.88	58.90	1.48	0.81
16.	Manufactured tobacco. (122)	-39.16 (-9.71)**	3.73 (1.29)	5.37 (4.84)**				0.85	44.96	1.59	1.02

contd.....

TABLE 6.4: Regression Results on some 'Disaggregated' at 3-digit level Commodity exports from Pakistan (1960-61 to 1976-77)

No.	Dependent Variable. and PSTC Code	EXPLANATORY VARIABLES						$\bar{R}^2$	F-Statistic	DW	SEE
		Intercept	ln EER_t	ln Q_t	Time	ln EER_{t-1}	ln Q_{t-1}				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
17.	Fish, fresh and simply preserved. (031)	1.59 (3.64)**	-0.17 (-0.55)		0.11 (9.78)**			0.87	56.29	1.91	0.20
18.	Fish, canned and fish preparations. (032)	-2.86 (-1.30)	0.16 (0.17)		0.26 (11.86)**			0.90	70.44	1.83	0.44
19.	Organic chemicals. (512)	16.97 (4.15)**	-10.13 (-4.93)**		0.45 (8.44)**			0.85	47.22	1.68	0.54
20.	Paints & Varnishes. (533)	3.05 (1.19)	-2.29 (-1.94)*		0.15 (4.06)**			0.48	8.29	0.73	0.67
21A.	Medicinal & Pharmaceutical products (541)	-1.22 (-0.48)	0.12 (0.11)		0.09 (3.55)**			0.41	6.60	1.02	0.50
21B.	Medicinal & Pharmaceutical products (541)	-6.85 (-3.88)**			0.07 (3.66)**	2.65 (3.38)**		0.68	17.66	1.03	0.37
22.	Perfumery & cosmetics (553)	-6.22 (-2.77)**	1.17 (1.19)		0.18 (8.08)**			0.82	36.44	0.49	0.45
23.	Soaps, cleansing and polishing preps.(554)	-11.26 (-2.01)*	4.20 (1.71)		0.18 (3.05)**			0.32	4.70	1.03	1.05
24.	Non-electric machinery (71)	13.17 (3.04)**	-6.31 (-3.01)**		0.18 (3.45)**			0.38	5.97	1.94	0.49
25.	Electric Machinery. (72)	-5.80 (-0.92)	2.18 (0.76)		0.09 (1.76)*			0.38	5.84	1.37	0.73

.....contd....

Table 6.4 (Contd)

Dependent variable = FOB value of exports of the commodity concerned in million U.S. dollars.

EER = The effective exchange rate as rupees per one U.S.dollar applicable to the commodity in question.

Q = The physical quantity of production of the commodity as:-

Cotton: Thousand tons taken from Pakistan Economic Survey (1977-78),Statistical Table 11 pp.24-25.

Rice: " " " " " " " " " " "

Yarn & Thread: Million KG taken from Pakistan Economic Survey (1978-79),Statistical Table 4.3,pp.48-50

Cotton fabric: Million sq. metres " " " " " " " "

Art Silk & Rayon Cloth: Million metres " " " " " " " "

Unmanufactured Tobacco: Thousand tonnes taken from Pakistan Economic Survey(1978-79),Statistical Table 3.3 pp.26-27.

Manufactured Tobacco: Index of cigarette production with 1959-60 = 100, based on data in Pakistan Economic Survey (1978-79), Statistical Table 4.3, pp.48-50.

TIME = From 1960-61 to 1976-77 as 2, ... , 18.

All other symbols are the same as in Table 6.1.

thread. Perhaps due to these reasons the coefficient of the current EERs for yarn and thread was not found to be significant, but the EER, a year-lagged, turned out to be highly significant. In relation 3A for cotton fabrics, the coefficient of the EER was highly significant, but the coefficient of Q was not found to be significantly different from zero, and the Durbin-Watson (DW) statistic was also quite low. The low DW statistic suggests positive serial correlation.(15) The non-significant coefficient of Q, which means that the production of cotton fabrics was not export-biased, was against all expectations. The Government policies throughout have encouraged the production of cotton cloth for the purposes of export. In view of the fact that Pakistan faces a good deal of competition in the export market for cotton cloth and the markets of the developed countries are not easily accessible to Pakistani exporters becuase of tariffs, and in some cases even country quotas, more effort and time might have been needed to export this commodity. We tried the EER and Q, both lagged one period, the coefficients for which turned out to be highly significant, and the DW statistic also improved. All other statistics of goodness of fit in 3B were better than those in 3A,

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(15) The relation was also estimated by the Hildreth-Lu procedure. In the Hildreth-Lu scanning procedure a set of 'grid' values for ρ are specified. For each value of ρ, the transformed equation

$$(y_t - \rho y_{t-1}) = a(1-\rho) + b(x_t - \rho x_{t-1}) + \ldots + U_t$$

is estimated. The procedure selects the equation with the lowest sum of squared residuals as the best equation. For cotton fabrics the estimated coefficients by the Hildreth-Lu procedure were as follows:-

$$\ln X652^{*} = \underset{}{2.66} + \underset{(0.93)}{1.97}\ \ln EER^{*}_{t} - \underset{(-0.46)}{0.38}\ \ln Q^{*}_{t}$$
$$(1.28)$$

$$\rho = 0.85,\ \bar{R}^2 = 0.92,\ F\text{-statistic} = 89.94,$$

$$DW = 2.16,\ SEE = 0.26.$$

Pindyk and Rubinfeld (1976, p.108) have, however, pointed out that the use of alternative procedures to deal with the problem of serial correlation may introduce inefficiencies which are greater than the inefficiency associated with serial correlation. Therefore, judgement must be exercised in the choice of estimation technique.

which may mean that the relation in 3B captures the behaviour of cotton fabrics' exports better than that in 3A. However, it should be pointed out that a simple model, as in the present case, is unable to take account of all the institutional and other factors which determine the exports of a major commodity like cotton fabrics from Pakistan. Further research should be carried out for cotton and cotton manufactures,which should take into account all the relevant domestic and external, economic, institutional and other factors. Only then can some firm conclusions be reached. Nevertheless, the regression results in Table 6.4 strongly suggest that the elasticity of exports of yarn and thread, cotton fabrics, clothing and made-up articles of textiles with respect to their respective EERs was greater than unity, and their domestic production was export-biased. Similarly, synthetic cloth and embroidery etc. also showed a significant relationship with their EERs. The coefficient of the EER for special textile fabrics (like buckram, fishing nets, wicks, ropes etc) was not different from zero, nor was it significantly different from zero for carpets etc. While special textile fabrics were not a major item of export from Pakistan, the same was not true for carpets. We, therefore, regressed the FOB value of exports of carpets on the EERs, lagged one period, and time. The coefficient of the EER turned out to be significant at the 5 per cent level. It showed an elasticity of nearly 2 for carpets exports with respect to their EERs, and for a given level of the EERs a 19 per cent annual rate of growth in their exports.

The regression results in the present exercise have shown that the elasticity of exports of cotton fabrics and other cotton manufactures with respect to their EERs was greater than unity, and that the growth in their domestic production was generally export-biased. A question which naturally comes to one's mind is: Did the export promotion policies of Pakistan lead to a real increase in export earnings from these commodities in the long-run? The export

policies of Pakistan were formulated in such a way that they discriminated in favour of export of manufactured goods and against export of raw materials. Thus the increase in exports of cotton manufactures was being achieved at the expense of exports of raw cotton. To the extent that the value-added in the exports of manufactures was greater than the value-added in the exports of raw cotton, the export policies might have resulted in increasing the earnings from exports. Mallon (1966, p.76), however, was doubtful about the export of cotton yarn resulting in any net foreign exchange benefit in the year 1960, because the export price of raw cotton was quite high in that year. Apart from the increase in foreign exchange earnings due to increas in value-added, any real increase in export earnings from the manufactures of cotton depended upon the real increase in the production of raw cotton in the country. Given the conditions in the export market, if the production of raw cotton had increased in a real sense during this period, and if more investment was coming into its production, then the export earnings from cotton group could be expected to have risen in the long-run. The data on production, acreage and yield per acre of cotton are given in Table 6.5.

The data in Table 6.5 show that in absolute terms, the production, acreage and yield per acre of cotton, all had generally been rising during the period of 1960-61 to 1976-77, although year-to-year variations were also discernible. The rise in the area under cotton production was more than the rise in either the cotton production or the yield per acre of cotton. In relative terms when compared with some other major crops, the area under cotton production had shown a modestly rising trend, while both the production and the yield per acre of cotton, with the exception of a few years, had been declining. The increase in the area under cotton production might have been necessitated by the relatively low yield per acre, if the cotton growers wanted to prevent their relative incomes falling below the level of those growing other crops. The declining yield per acre of cotton relative to other crops suggests that in the

TABLE 6.5: Production, Acreage and Yield per Acre of Cotton Compared with Some Other Crops.

YEAR	PRODUCTION ('000' TONS)			ACREAGE ('000' ACRES)		
	Cotton	Other Principal Crops (a) (Excluding cotton)	Cotton as a percentage of other principal crops	Area under cotton	Area under cotton other principal crops (excluding cotton)	Area under cotton as percentage of area under other principal crops
1960-61	296	18170	1.63	3195	24145	13.23
61-62	319	21299	1.50	3449	25501	13.52
62-63	361	25582	1.41	3395	25999	13.06
63-64	412	23261	1.77	3634	25516	14.24
64-65	372	26545	1.40	3624	27491	13.18
65-66	408	29179	1.40	3858	26868	14.36
66-67	456	29517	1.54	4003	27972	14.31
67-68	510	28615	1.78	4411	29533	14.94
68-69	520	32307	1.61	4313	28985	14.88
69-70	527	37702	1.40	4338	29376	14.77
70-71	534	33681	1.59	4283	28963	14.79
71-72	697	31009	2.25	4837	28369	17.05
72-73	691	31545	2.19	4967	28490	17.43
73-74	649	36033	1.80	4559	30031	15.18
74-75	625	32996	1.89	5019	28198	17.80
75-76	505	38696	1.31	4576	29751	15.38
76-77	423	43005	0.98	4608	30963	14.88

Continued.....

TABLE 6.5 Continued.....

YEAR	YIELD PER ACRE (MAUNDS PER ACRE)				
	Cotton	Rice	Wheat	Cotton as percent of Rice	Cotton as percent of wheat
1960-61	2.5	9.5	8.9	26.32	28.09
61-62	2.5	10.1	8.8	24.75	28.41
62-63	2.9.	10.0	9.0	29.00	32.22
63-64	3.1	10.0	9.0	31.00	34.44
64-65	2.8	10.8	9.4	25.93	29.79
65-66	2.9	10.2	8.2	28.43	35.37
66-67	3.1	10.5	8.8	29.52	35.22
67-68	3.1	11.4	11.6	27.19	26.72
68-69	3.3	14.2	11.6	23.24	28.45
69-70	3.3	16.1	12.7	20.50	25.98
70-71	3.4	15.9	11.7	21.38	29.06
71-72	3.9	16.8	12.9	23.21	30.23
72-73	3.8	17.1	13.5	22.22	28.15
73-74	3.9	17.6	13.5	22.16	28.89
74-75	3.4	15.6	14.3	21.79	23.78
75-76	3.0	16.6	15.4	18.07	19.48
76-77	2.5	17.0	15.1	14.71	16.56

(a) Other principal crops include wheat, rice, bajra, jowar, maize, barley, gram, sugarcane, rape seed and mustard, sesamum and tobacco.

SOURCE: Based on Data in Pakistan Economic Survey (1977-78), Statistical Tables 10, 11 and 12, pp.20 - 28.

already depressed sector of agriculture, the growing of cotton was even worse-off. Probably neither the improved seed, fertilizer and modern techniques of its growing were being used, nor was any substantial research for improving its yield per acre being carried out. The lack of investment in cotton growing might have been caused, among other things, by the unfavourable effective exchange rates for its exports. Under these circumstances, it is doubtful if any substantial real increase in export earnings from cotton manufactures could be achieved in the long-run.

Relations 10 through 13 give regression results for the leather group. The coefficient of the EER for raw hides and skins was not significant, while the coefficient of time was -0.19, and was significant at the 1 per cent level. This means that exports of raw hides and skins have been declining at the rate of 19 per cent per annum during the period of 1960-61 to 1976-77. The exports of raw hides and skins have declined primarily because of the growth of the domestic leather industry, increased internal consumption of the raw hides and skins in the growing domestic industry, and the Government policy regarding their export in raw form. Hides and skins were another commodity like the raw cotton, which had been excluded from the purview of the Export Bonus Scheme from the outset. The Government policy was to encourage the exports of leather and leather manufactures instead of the raw hides and skins. The exports of tanned leather in relation 11 showed a significant relationship with their EERs and the coefficient of time for their exports was also highly significant. In relations 12 and 13 the coefficients of the EERs for manufactures of leather and footwear, though not significant, were of the correct sign, and the coefficient of time in both cases was highly significant. However, the low DW statistic for tanned leather and manufactures of leather suggests the existence of positive serial correlation. Therefore, search for a better explanation which should take into account all the relevant factors, like the competition from artificial leather, and from countries with better techniques of curing and tanning, changes in fashion in the export market, import restrictions

in the industrialized countries etc. as well as the increased domestic consumption of leather goods, should be continued.

Rice is another major export of Pakistan. The regression results on this commodity in relation 14 gave a significant coefficient for the EER, but the coefficient of Q was neither significant nor of the expected sign. The export of rice was generally determined by the Government in the sense that for most of the period under consideration, the Government fixed a quota for the procurement and export of rice, and since establishing the TCP and later the Rice Export Corporation, most of the export of rice has been done in the public sector. It is probable that due to favourable weather conditions when the production of rice was more in the country, more was left for domestic consumption. With the given export targets for rice which were generally fixed before the actual harvest, the deviations from the expected harvest could show a negative relationship with the exports. However, here again the low DW-statistic is indicative of positive serial correlation.

The next four relations in Table 6.4, i.e. 15 through 18, give regression results on the exports of tobacco and fish. Unmanufactured tobacco, which had been given export incentives, responded significantly to the EERs and the growth of its production was also export-biased. The coefficients of the EERs and Q were both significant at the 1 per cent level. The coefficient of the EER for manufactured tobacco was not found to be significant, though it was of the expected sign, but its production was found to affect its exports significantly. The coefficient of Q for manufactured tobacco was significant at the 1 per cent level. Fresh fish is the only commodity among the ones analysed in this study, which has been subjected to a sales tax on its export. Consequently, its exports showed no relationship with the EERs. The coefficient of the EER was not different from zero and was rather of negative sign.

The positive and significant intercept term for fresh

fish suggests that fresh fish was exported even if its EER were quite unfavourable. This might have been because of the limited domestic capacity for processing fish, and because of the difficulty of mobility to other jobs for people engaged in this profession.

The coefficient of time for fresh fish was also highly significant. The exports of fish preparations and canned fish showed a significant relationship only with the time variable, and the coefficient of the EER for this commodity was not found to be significant, perhaps because of limited processing capacity.

Turning now to the chemicals group (relations 19 through 23) and machinery (relations 24 and 25), the EERs for these commodities were generally found to have no positive effect on their export performance. In many cases the sign was negative. Pakistan, all along, has been a net importer of chemicals and machinery. In the mid-sixties or early seventies, Pakistan started to export (in any meaningful sense of the word) some relatively simple-technology products in these groups, like paints and varnishes, perfumery and cosmetics, soaps, cleansing and polishing preparations, sewing machines, hardware and electric fans etc. Time is required before the markets can be penetrated and the Pakistani exporters can acquire the necessary expertise in the export of these commodities. Developing countries like Pakistan are at a disadvantage in the export markets when faced with competition from the high-technology industrialized countries. The superior technology of developed countries, their long-standing brand names, vast accumulation of marketing knowledge, advertisement and similar other factors have established the exporters from those countries in the export market. Moreover, supply constraint in the country might have been a factor in making EERs not a significant determinant of export performance of these commodities. However, for the medicinal and pharmaceutical products, especially medicinal herbs, the coefficient of the EER, lagged one period, was found to be significant at the 1 per cent level, which means that the exporters of these products responded significantly to the export incen-

tives. Similarly the coefficients of the EER for perfumery and cosmetics, soaps and cleansing preparations and electric machinery, though not significant, were of the expected sign.

Before concluding the discussion, we may summarise the main results of the regression exercises. The regression results on Pakistan's exports were generally consistent with the hypothesis that the export promotion schemes of Pakistan played an important role in determining the export performance of the country. For the commodities, which had been given export incentives and as a result had enjoyed favourable EERs, the EERs turned out to be a significant determinant of their exports. The exports of the manufacturing sector, which had enjoyed favourable EERs all along, were found to have been affected significantly by the EERs and the growth of the manufacturing sector was export-biased. On the other hand, the commodities which were not given export incentives and which in consequence had had unfavourable EERs, did not show any significant relationship between EERs and their exports. The exports of the primary sector had been accorded generally a less favourable treatment as far as their exchange rates were concerned. Consequently the growth of the primary sector over time was found to be biased against exports. It appears that during the period under consideration the resources were transferred from the primary sector to the manufacturing sector and/or from the production of exportable primary commodities to the production of other crops. Particularly the position of cotton production relative to the production of other major crops deteriorated during the period under study.

The evidence presented above on deficits in the balance of payments and on the problem of debt-servicing, and (in the face of a tightening 'aid' situation) the dependence of growth of the economy on export growth, all suggests Pakistan's need to expand exports. The export promotion schemes have helped in expanding exports from the country

during the period studied. For the growth of exports in the future, Pakistan should continue to operate and probably strengthen the export promotion measures. However, a careful examination of export policy in respect of the primary (agricultural) commodities should be made, and in the light of its findings, if necessary, the policy towards agriculture should be modified.

CHAPTER VII

SUMMARY AND CONCLUSIONS

The purpose of the present study, as set out in Chapter 1, was to describe, express quantitatively and analyse the export promotion schemes of Pakistan, and to determine how far they have been effective in expanding exports from the country during the period 1959-60 to 1976-77.

To put the problem in proper perspective, we proposed to present the economic background of the study. This was done by examining in Chapter 2 the growth of the economy of Pakistan since 1949-50, major structural changes which had taken place in the economy during the period 1949-50 to 1978-79, and some of the policies adopted to foster industrialization. An examination of the problem of the balance of payments and the problem of debt-servicing of Pakistan was also undertaken. The intention was to give the reader a general background to the developmental stage of the Pakistan economy and an understanding of the structural transformation which had taken place over the period of three decades. The information on the magnitude of deficits in the balance of payments and on the ever-increasing burden of debt-servicing was intended to establish the need for expanding exports from Pakistan. Main features of commodity exports from Pakistan were also presented to make clear their structure and composition etc.

The rapid growth of industrialization in Pakistan was achieved through policies of protection. Chapter 3 was mainly concerned with the discussion of some of the arguments for protection in developing countries, and with the investigation of the history of protection in Pakistan. The instruments of protection like tariffs, import licensing etc., and the level and structure of proptection implied by them were discussed in order to give an impression of the extent of protection afforded to the manufacturing industry of Pakistan.

It is generally believed that policies of protection without corresponding policies of export promotion create a bias against exports and are detrimental to the growth of exports. Since 1959, Pakistan has developed schemes to overcome some of the deficiencies of protection. In

Chapter 4, the details of such schemes were presented. The Export Bonus Scheme and the Export Performance Licensing Scheme were discussed in detail in respect of their institutional framework, rate structure, scope and coverage, premia and other important features. The present study gives a comprehensive unified account of these schemes, based on the descriptions of such schemes which are scattered in scores of Government publications. At the present time, this appears to be the only unified account of the complexities of these schemes for the whole period of their operation. The rebates of import duties paid on inputs used in the production of exported commodities and the exemption of exports from other indirect taxes were also discussed. The discussion of export promotion schemes and the export subsidies involved in them lays the foundation for the data required for the statistical analysis of Chapter 6.

Having analysed the major export promotion schemes of Pakistan in their institutional details in Chapter 4, we were then able, in Chapter 5, to construct the data base necessary for detailed statistical analysis of Chapter 6. Calculation of the commodity-specific, as well as the sectoral EERs for exports, was undertaken in Chapter 5. This was perhaps an unglamorous but a necessary part of the scientific process. It is hoped that the estimates of export EERs provided by the present study might be a factor contributing to cumulative scientific progress in this field. A comparison of the export EERs with the import EERs (if and when available) can be used to determine the relative profitability of production for export vs. import-substitution and (given the policy of protection) to determine the extent of bias-reduction against exports. The estimates of export EERs given in the present study can serve as data for a detailed disaggregated analysis of exports by more specialised modelling in any further research. The level and structure of discrimination of the Government policy between different industries and between different sectors of the economy can also be determined by

an examination of the export EERs, and the effects of discriminatory EERs on resource allocation can be seen.

An examination of the EERs in Chapter 5 showed that the EERs for manufactured exports had remained consistently higher than the official exchange rate throughout the period under consideration, except in 1972-73. In 1972-73, the official exchange rate itself had increased (in terms of domestic currency units) by more than 91 per cent over 1971-72.(1) The average differential of the EERs for manufactured exports over the official exchange rate had been around 68 per cent during the period of 1959-60 to 1971-72, while it was about 6 per cent for the period after the devaluation. The EERs for primary exports had remained below the official exchange rate for some earlier years, and again after the devaluation of 1972, while for the intervening period of 1962-63 to 1971-72 they had remained, on average, about 9 per cent higher than the official exchange rate. The EERs for primary exports as a ratio of the EERs for manufactured exports had been, on average, about 63.5 per cent during the period of 1959-60 to 1971-72, and about 78 per cent for the period after the devaluation, i.e. from 1972-73 to 1976-77. Since the exports of the manufacturing sector had always received better terms of trade (in terms of domestic currency earnings) than the exports of the primary sector during the period under consideration, on *a priori* grounds, the resources would have been transferred from the primary sector to the manufacturing sector. This was also in line with the official strategy of economic planning and development. The Third-Five-Year Plan (pp.7,33) noted,

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(1) The official rate of exchange of Rupee vis-à-vis the U.S.dollar has been as follows:-

Up to 11th May 1972, one U.S.$ = Rs 4.76.
Between 12th May 1972 and 13th February 1973, one U.S.$ = Rs 11.00
Sinee 14th February 1973, one U.S.$ = Rs 9.90.

The official rate of exchange for 1971-72 as one U.S.$ = Rs 5.54 and for 1972-73 as one U.S.$ = Rs. 10.59 was calculated, using as weights the number of days a particular rate had been in force.

"There was a considerable transfer of income from the agriculture to the industrial sector during the 1950s as terms of trade were deliberately turned against agriculture through such policies as licensing of scarce foreign exchange earned primarily by agriculture to the industrial sector, compulsory Government procurement of food-grains at low prices to subsidize the cost of living of the urban, industrial workers, generous tax concessions to industry and lack of similar incentives for commercial, agricultural investment. ..... Thus, the rural areas were transferring savings to the fast modernising, urban capital sector. .... Already, a sizeable transfer of savings is taking place through the rural branches of the commercial banks to the urban centres. The planned extension of the branches of the Agricultural Development Banks to the far-flung corners of the country-side, and the proposed acceptance of deposits by these branches will further encourage the mobilization of rural savings." It would be interesting to see how much resources were transferred from the primary sector to the manufacturing sector; what part of the resource transfer could be attributed to the discriminatory EERs, and what were its effects on the overall development of the economy. Further research should be continued in these directions.

The examination of the EERs in Chapter 5 also showed that compared with their level of 1960-61, the temporal increase in the EERs for exports of manufactured goods was higher during the sixties than that in the seventies. The behaviour of the temporal increase in the EERs for primary exports was found to be the opposite of the temporal behaviour of the EERs for manufactured exports. This suggests that an improvement in the relative terms of trade (in terms of domestic currency) for the exports of the primary sector had taken place during the seventies. The examination of the real EERs also confirmed a similar conclusion. In addition, the real EERs based on the domestic wholesale prices alone were compared with the similar EERs in some other developing countries. It was found that during the period 1960-61 to 1970-71, the profitability of exporting

from Pakistan, due to the export promotion schemes, was higher relative to the profitability of exporting from many other developing countries during the same period.

With the data on EERs for exports, a statistical analysis for the exports of the manufacturing and primary sectors, as well as for a wide range of commodity groups was undertaken in Chapter 6. The statistical analysis was in the spirit of the NBER study 'Foreign Trade Régimes and Economic Development', and was quite consciously conceived in that way. However, a number of statistical problems which were given little attention or were entirely neglected in the NBER study, have been given fairly careful consideration in the present work. The analytical framework of the model was elaborated in some detail, in contrast to the NBER study in which little attempt was made to justify the model in terms of *a priori* notions. Furthermore, some of the problems unique to Pakistan such as the separation of former East Pakistan from the rest of the country, and the consequent problem of a shift in the export function, were spelled out. Since Pakistan's exports constitute only an insignificant part of total world exports, the prices in the foreign markets for Pakistan's exports were assumed to be determined exogenously. Making the small country assumption a single-equation model was estimated. The purpose was to determine whether or not exporters from Pakistan significantly responded to export promotion measures adopted by the Government during the period under consideration. It was found that the exporters of manufactures showed a significant response to such measures during the period of 1960-61 to 1976-77. The elasticities of export earnings from the manufacturing sector with respect to the EER and the index of manufacturing production were found to be 1.78 and 1.65 to 1.98 respectively. The partial adjustment model was also estimated in order to take account of the lag-structure. The regression results of this exercise suggested that nearly two-thirds response was completed within the current period. The estimate of the long-run elasticity of manufactured

exports with respect to the EER wasabout 2.5. The coefficient of the relative price index for the manufacturing sector was also found to be significant in the long-run, which suggests that in response to export incentives, the exporters from Pakistan tended to shift a part of the sale of their output from the domestic market to the foreign market in the long-run. The growth of production of the manufacturing sector was found to be export-biased. For the exports of the primary sector, while the coefficient of the EER was found to be significant at the 1 per cent level, the coefficient of the index of its production was not different from zero. Probably, the institutional factors played a greater role in determining the export performance of the primary sector for Pakistan.

The regression results for the 'disaggregated' commodities were, in general, consistent with the hypothesis that the EERs were a significant determinant of export performance of the commodities which had been given favourable EERs. This was generally true for the exports of manufactured commodities. However, some commodities in the chemicals and machinery groups did not show many significant relationship between the exports and the EERs. Pakistan, being a net importer of chemicals and machinery, made a start in the sixties in the export of some simple-technology products in these groups. Given the competition from developed countries in these products, it would take some time before the foreign markets could be penetrated. In addition, the supply constraint in the country might have been a cause of the lack of any relationship between their export and the EERs. A detailed investigation should be made in respect of these products. The exports of the primary commodities had, generally, been given less favourable EERs during the period under consideration. As a result, their EERs did not turn out to be a significant determinant of their exports. This was in-line with the Government policy, which has aimed at expanding the exports of manufactures at the expense of the exports of primary commidities.

The results of the statistical analysis in the present study have shown that, in general, the exporters of the manufactured commidities who had been given export incentives responded significantly to them during the period 1960-61 to 1976-77. In view of the deficits in the balance of payments, the problem of debt-servicing and the need for foreign exchange for developmental imports Pakistan would require to expand exports in the future. For this purpose, Pakistan should continue, and probably strengthen the export promotion measures. However, a careful analysis of the efficiency of earning foreign exchange from different industries, and from the manufacturing exports vs. the primary exports should be made, and the costs of earning foreign exchange in terms of domestic resources from each of these should be determined.

The study has further shown that the growth of agriculture relative to the growth of the manufacturing sector had been slower during the period studied. In agriculture, the position of cotton production, compared with the production of some other major crops, generally deteriorated during this period. The discriminatory EERs afforded to the primary and the manufacturing sectors might have contributed to the divergent rates of growth of the two sectors. In the light of the proposed efficiency analysis, the export policy regarding the primary sector might call for a re-examination. Due to the overwhelming importance of agriculture in the economy of Pakistan, this aspect should be fully investigated.

APPENDICES

APPENDIX A.

APPENDIX A: EXPORTS OF COMMODITIES FROM PAKISTAN (VALUE IN THOUSAND RUPEES)

SITC CODE	COMMODITY / YEAR	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
001	Live animals, chiefly for food.	2	0	0	2	5	9	62	516	1117
00[illegible]	Live animals n.e.s.	0	0	0	0	0	0	0	0	0
011	Meat: fresh, chilled, frozen	4	3	5	9	90	73	72	9	180
012	Meat: dried, salted or smoked, not canned.	20	0	12	4	0	0	7	6	147
013	Meat canned & meat prep.	2267	5405	5856	0	0	0	0	0	1
022	Milk and cream	1	0	0	0	0	0	0	1	24
023	Butter	0	0	0	56	2	61	106	79	43
024	Cheese and curd	0	0	0	0	2	1	0	0	1
025	Eggs	0	0	0	0	0	0	0	3	121
026	Natural honey	0	0	0	0	0	0	0	0	0
029	Dairy products n.e.s.	0	0	56	0	0	0	0	0	0
031	Fish: fresh or simply preserved	18711	21251	30768	32355	39227	45576	50932	41631	56439
032	Fish & fish prep.canned.	346	972	1240	1220	1399	3835	6595	3381	4895
041	Wheat & meslin unmilled.	16	0	0	813	5	2	0	22	893
042	Rice	48981	86501	172837	105570	122664	132519	175903	149402	155158
043	Barley, unmilled.	0	0	0	0	0	0	0	0	0
044	Maize (corn)unmilled.	81	0	130	0	4	0	0	0	0
045	Cereals, unmilled, other than wheat, rice, barley & maize.	1	71	21	0	0	0	6499	3284	4261
046	Meal & flour of wheat.	[illegible]	0	0	0	2019	0	0	78	39
047	Cereals milled except wheat meal & flour of cereals.	300	1401	2356	0	53	0	7	0	274
048	Cereal preparations.	34	41	645	1537	1512	1478	1429	2280	1564
051	Fruits & nuts, fresh (not incl. oil nuts)	4021	5088	4643	4073	5568	6174	3660	5385	3742
052	Dried fruit	152	455	502	2782	465	386	551	432	716
053	Fruit preserved & prep.	51	65	171	165	287	62	252	104	99
054	Vegetables, fresh, frozen or preserved n.s.	318	86	148	71	284	839	721	370	7040
055	Vegetables, preserved & preparations.	10	22	11	221	441	1548	973	1788	3191
061	Sugar & honey.	1757	366	4630	10636	4964	4482	10850	5647	3300
062	Sugar confectionary & preparations.	4	6	86	1544	674	650	509	444	120
071	Coffee	[illegible]	0	0	1	0	0	0	0	0

contd.....

APPENDIX A. Contd...

EXPORTS OF COMMODITIES FROM PAKISTAN
(VALUE IN THOUSAND RUPEES)

(b)

PSIC CODE		1960.61	1961.62	1962.63	1963.64	1964.65	1965.66	1966.67	1967.68	1968.69
072	Cocoa	0	0	0	0	0	0	0	0	0
073	Chocolate & choc.prep.	0	0	29	139	67	27	7	0	0
074	Tea and mate.	0	0	7	2	1	1	0	6	27
075	Spices	1244	915	669	3976	3804	4314	4296	3350	3861
081	Feed-stuff for animals.	6299	7945	17850	12302	13392	25384	21913	20715	12200
091	Margarine & shortenings.	0	0	0	0	0	0	1	0	0
099	Food prep. n.e.s.	663	457	131	111	106	120	75	5165	2587
111	Non-alcoholic beverages.	0	0	0	0	40	165	52	556	1964
112	Alcoholic beverages.	0	18	14	78	290	48	1936	1457	399
121	Tobacco unmfrd.	42	40	379	2119	1821	628	2895	12366	15505
122	Tobacco. Manufactured.	10	22	40	61	52	53	1030	869	246
211	Hides & Skins (except furskins) undressed.	27230	35757	30991	25098	16516	13654	6348	5085	3820
212	Fur skins, undressed.	722	802	986	2796	352	413	66	123	99
221	Oilseeds, oil nuts & oil kernels.	1476	763	801	871	324	971	5186	5580	5137
231	Crude rubber (incl. synthetic)	0	0	35	0	0	0	0	1	0
241	Fuel wood & charcoal.	0	0	0	0	0	23	0	1	51
242	Wood (rolled or roughly squared)	0	0	0	2	0	0	7	12	4
243	Wood shaped or simply squared worked.	0	0	0	0	4	16	0	85	256
244	Cork, raw & waste.	0	0	0	0	0	0	0	0	3
251	Pulp or waste paper	20	0	0	0	0	0	0	0	0
261	Silk	0	0	0	0	0	0	0	0	0
262	Wool & other animal hair.	76183	75922	94490	87239	61233	71821	41782	42841	47524
263	Cotton	149704	145683	396814	362463	316173	298529	305243	457943	364200
264	Jute	13	0	0	675	28	129	29	29	1
265	Vegetable fibres, except cotton & jute.	14	219	0	0	3	47	308	1	146
266	Synthetic fibres.	0	0	11	1	11	0	57	0	33
267	Waste materials from textile fabrics incl.rags.	0	1	138	91	140	189	300	231	582
271	Fertilizers crude.	1659	443	1684	7944	7880	12780	10274	8570	6647

CONTD.....

APPENDIX A. Contd...

EXPORTS OF COMMODITIES FROM PAKISTAN
(VALUE IN THOUSAND RUPEES)

SITC CODE		1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
279	Other crude minerals	3161	2476	6806	4775	7368	5191	4719	6454	6417
281	Iron ore & concentrates.	286	0	6	607	4	606	0	0	0
282	Iron & steel scrap	0	816	446	449	1133	829	1008	532	338
283	Ores & concentrates of non-ferrous metals.	1893	1612	1037	257	2606	2343	4519	1443	155
284	Non-ferrous metal scrap.	0	15	0	6	0	36	0	0	40
285	Silver & platinum ores.	0	0	0	0	0	0	0	354	0
291	Crude animal materials inedible n.e.s.	6478	8185	6047	12018	7168	11148	14673	12456	11187
292	Crude vegetable mats. inedible n.e.s.	11615	7946	14986	9980	21843	24494	20001	20726	25972
321	Coal, coke & briquettes.	0	0	0	7	0	0	0	77	177
331	Petroleum crude & partly refined.	0	0	0	2	0	0	0	0	0
332	Petroleum products.	55	26	405	7285	31527	19297	10250	30914	39617
341	Gas natural & mfrd.	0	1	0	0	0	0	0	0	0
411	Animal & Veg. oils & fats.	0	0	0	8	6	4	523	501	36
421	Fixed vegetable oils,soft.	20	1	28	135	74	217	88	120	133
431	Oil & fats process & waxes of animal & veg. origin.	0	0	0	0	0	0	0	1251	42
512	Organic chemicals.	205	531	275	344	623	1373	7516	5298	7406
513	Inorganic chemicals.	41	91	309	265	129	429	600	909	928
521	Mineral tar & crude chems. from coal, petrol & nat.gas.	0	0	0	0	0	3409	0	0	13
531	Synthetic organic dye-stuffs	0	33	3	8	0	1971	17	0	0
532	Dyeing & tanning extracts	0	30	0	17	74	3	4	6	0
533	Pigments, paints, varnishes & related materials.	343	270	790	3045	3198	2738	2184	5367	7005
541	Medicinal & pharmaceutical products.	1347	825	2381	5592	4928	5816	5616	5672	5129
551	Essential oils, perfume & other flavour materials.	56	14	61	235	56	256	269	110	74
553	Perfumery & cosmetics.	72	128	304	535	797	802	848	1263	1187
554	Soaps, cleansing and polishing preparations.	762	157	213	4107	5762	7171	8141	9642	7955
561	Fertilizers, manufactured.	0	2	95	4487	0	0	0	3511	891
581	Plastic materials.	0	1	0	1	101	200	62	5	13
599	Misc. chemical materials and products.	219	356	1753	938	1762	1539	3326	2566	3863

Contd.....

APPENDIX A. Contd. EXPORTS OF COMMODITIES FROM PAKISTAN
(VALUE IN THOUSAND RUPEES)

SITC CODE		1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69
611	Leather	6670	11407	14860	30750	45920	74898	76264	83787	113847
612	Manufrs of leather & artificial/reconst. leather n.e.s.	35	27	49	130	361	400	1205	2656	7003
613	Furs, dressed &/or dyed.	0	0	0	291	265	0	0	0	0
621	Materials of rubber	7	3	10	19	91	47	295	551	993
629	Articles of rubber n.e.s.	393	1359	1673	2990	2164	1660	1304	1206	1179
631	Veneers, plywood & other wood, n.e.s.	37	38	0	14	1	8	4	44	13
632	Wood mfrs. n.e.s.	67	21	12	125	148	134	59	139	103
633	Cork mfrs.	0	0	0	6	9	3	1	2	0
641	Paper & paper board.	238	1906	964	258	194	171	165	150	520
642	Articles of paper, pulp or board.	72	24	18	281	35	404	571	216	305
651	Textile yarn & thread	67454	100888	20167	95574	141635	103031	116477	212017	208552
652	Cotton fabrics (std. type) woven.	44619	30797	67605	89812	133408	147903	158063	194024	226049
653	Textile fabrics (std. type) woven.	1293	1006	271	3370	5649	14216	34809	67545	78154
654	Tulle, lace, embroidery etc.	19	12	60	179	313	227	323	719	440
655	Special textile fabrics & related products	436	1616	1067	869	1406	1494	1174	2122	2377
656	Articles of textile mats. n.e.s.(not clothing/footwear)	1607	2541	2904	6783	10622	10940	16006	25217	33303
657	Floor coverings, tapestries	9265	13829	14819	25954	20180	23202	32086	31913	40048
661	Lime, cement & fabricated building material.	701	5830	662	101	97	413	6175	10257	12915
662	Clay construction mats.	97	5	3	4	59	4	51	18	14
663	Mineral mfrs. n.e.s.	1	4	5	16	38	167	61	75	120
664	Glass	1	2	3	165	29	86	86	35	98
665	Glass-ware	177	57	67	248	435	209	242	198	127
666	Pottery	11	9	8	38	52	22	3	12	28
667	Precious & semi-precious stones & pearls	1387	26	694	1348	0	1130	899	928	2858
671	Iron and steel	43	52	115	120	191	79	231	89	185
681	Steel & platinum group metals.	0	250	0	0	0	299	0	0	1
682	Copper	62	13	24	85	378	130	719	2	1
683	Nickel	3	2	0	0	0	0	5	0	0

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APPENDIX A. Contd.....

EXPORTS OF COMMODITIES FROM PAKISTAN
(VALUE IN THOUSAND RUPEES)

PSIC CODE		1960.61	1961.62	1962.63	1963.64	1964.65	1965.66	1966.67	1967.68	1968.69
684	Aluminium	61	12	6	55	97	384	268	63	33
685	Lead	0	8	16	21	29	0	4	0	9
686	Zinc.	0	0	0	0	0	2	46	0	0
687	Tin	0	0	0	3	21	79	11	0	0
689	Misc. non-ferrous base metals.	0	2	4	1	0	0	0	30	0
691	Finished structural parts and structures.	4	1	2	181	47	103	62	177	11
692	Metal containers for storage & transport.	0	0	0	1037	402	681	760	38	104
693	Wire products & fencing grills.	0	0	0	27	54	2	12	14	54
694	Nails, screws, nuts & bolts.	0	0	0	76	131	194	564	435	533
695	Tools for use in hand or in machines.	0	0	0	536	491	545	383	152	45
696	Cutlery.	0	0	0	1842	2180	2136	2991	2989	2885
697	Household equipment of base metals.	0	0	0	2767	1966	1480	1549	1887	1458
699	Manufactures of metals, n.e.s.	2751	1435	2993	1743	1346	1524	1450	688	576
711	Power generating (non-electric) machinery.	1931	4024	590	988	3375	2123	3613	1304	1415
712	Agrl. machinery or implements.	287	1286	351	23	458	7107	1125	68	27
714	Office machinery	6	59	14	9	11	63	156	0	5
715	Metal working machinery.	12	172	1045	171	460	790	620	354	227
717	Textile & leather machinery.	0	0	0	277	190	643	788	183	1737
718	Machines for special inds.	0	0	0	1014	926	435	13345	279	76
719	Machinery & appliance and parts n.s.	0	0	0	1614	2620	1884	7351	1082	952
722	Electric machinery and switchgear.	0	0	0	213	842	1832	4192	573	1532
723	Equipment for dist. of electricity.	0	0	0	707	408	1088	6220	4364	1145
724	Telecommunication apparatus.	0	0	0	414	274	271	2567	689	669
725	Domestic electrical equipment.	0	0	0	2152	3005	1994	3244	2060	986
726	Elect.equipment for medical purposes.	0	0	0	123	0	18	12	1	0
729	Elect. machinery and apparatus n.s.	820	1182	2613	858	386	1029	3946	710	532
731	Railway vehicles.	1	0	7	0	5	0	19	34	0
732	Road motor vehicles.	4184	3881	2269	2905	2517	3194	5810	251	53

Contd.....

APPENDIX A. Contd...

EXPORTS OF COMMODITIES FROM PAKISTAN
(VALUE IN THOUSAND RUPEES)

PSTC CODE		1960.61	1961.62	1962.63	1963.64	1964.65	1965.66	1966.67	1967.68	1968.69
733	Road vehicles other than motor vehicles.	33	30	34	376	486	352	282	175	113
734	Aircraft.	1481	3534	4786	6030	1046	4213	3205	4	0
735	Ships and boats	1	16	94	1649	47	595	2	199	101
812	Sanitary & plumbing, heating & lighting fixtures etc.	37	35	107	628	333	842	870	762	805
821	Furniture & fixtures.	73	104	337	144	201	220	144	246	264
831	Travel goods, handbags etc.	50	88	265	602	1485	611	642	1123	633
841	Clothing (except fur)	1137	1386	4013	11234	11787	9243	12586	15624	30672
842	Fur clothing (excl. hats, caps or gloves)	0	2	0	2	0	0	1	0	3
851	Footwear.	3003	2230	4881	12052	9844	8175	15781	25047	31342
861	Scientific measuring & controlling instruments etc.	2106	6044	5961	8274	6696	8761	10340	12069	8772
862	Photographic & cinematographic supplies.	27	30	54	316	137	113	120	27	177
863	Developed cinematographic films.	266	862	619	1172	312	591	497	633	270
864	Watches & clocks.	1	11	5	0	15	10	16	0	14
891	Musical instruments, sound recorders, etc.	741	567	799	1275	1133	1086	1074	760	631
892	Printed matter.	554	753	463	790	1686	2474	725	1508	1961
893	Artificial plastic materials etc.	0	0	0	661	78	279	431	445	493
894	Toys, games & sporting goods.	11547	13324	17594	18663	19576	19271	20099	23180	27232
895	Office & stationery supplies n.s.	0	0	0	1767	1161	1278	969	845	924
896	Works of art & antiques.	0	0	0	40	108	217	8	775	154
897	Jewellery, gold and silversmiths wares.	0	0	0	166	797	138	306	152	89
899	Manufactured articles n.e.s.	2839	4207	4502	3964	6744	6476	7409	15601	19927
911	Postal packages, not classified according by kind.	0	0	1911	2119	2380	1923	2790	3912	3298
931	Returned goods & special transactions.	0	10	19	948	46	65	186	106	125
941	Live animals, not for food (Zoo animals)	46	157	128	242	171	262	258	235	363

Contd.....

APPENDIX A. Contd.....

EXPORTS OF COMMODITIES FROM PAKISTAN
(VALUE IN THOUSAND RUPEES)

PSTC CODE	COMMODITY / YEAR	1969.70	1970.71	1971.72	1972.73	1973.74	1974.75	1975.76	1976.77
001	Live animals, chiefly for food.	1160	400	452	3262	274	645	1450	1019
003	Live animals, n.e.s.	0	0	0	0	0	0	0	0
011	Meat: fresh,chilled,frozen.	221	601	1298	2219	139	5	14	0
012	Meat: dried, salted or smoked, not canned	50	50	205	28	66	0	0	11
013	Meat canned & meat prep.	0	0	0	10	0	0	0	0
022	Milk and cream.	7	0	2	0	3	0	39	0
023	Butter	12	0	0	0	0	0	79	0
024	Cheese and curd	0	2	0	10	0	0	0	30
025	Eggs	62	2	260	523	0	0	0	182
026	Natural honey.	0	0	0	0	0	0	0	0
029	Dairy products n.e.s.	0	0	0	0	0	0	0	0
031	Fish: fresh or simply preserved.	74275	52944	96746	192478	179846	127164	231417	313450
032	Fish and fish prep.canned.	9055	8368	14414	41207	96137	29368	47363	67887
041	Wheat & meslin unmilled.	3	278	6	2	0	2	0	150
042	Rice	93889	172962	274117	1136123	2098429	2303718	2479134	2477851
043	Barley, unmilled.	0	0	93	16270	104132	0	427	3720
044	Maize (corn) unmilled.	31	458	75	452	0	0	0	3755
045	Cereals, unmilled, other than wheat,rice,barley and maize.	3747	8800	1432	9272	0	0	0	135
046	Meal & flour of wheat.	19	0	1	1	0	0	0	135
047	Cereals milled except wheat meal & flour of cereals.	8	229	2433	158	11242	597	5083	4536
048	Cereal preparations.	1483	2042	3392	6172	10694	13878	16527	15411
051	Fruit & nuts, fresh (not including oil nuts)	6171	6416	14618	30345	33261	66795	103294	139423
052	Dried fruit.	1924	1866	4222	13629	9939	4242	4695	4637
053	Fruit preserved & prep.	60	80	293	783	750	1330	996	984
054	Vegetables, fresh, frozen or preserved, n.s.	1277	1466	2602	13370	1065	4330	7724	61571
055	Vegetables, preserved and preparations.	3379	2708	3662	8780	8745	4330	2621	5663
061	Sugar and honey.	10627	65731	17043	40685	54176	92995	50399	68431
062	Sugar confectionary and preparations.	531	627	364	1712	1080	3071	1074	559
071	Coffee.	1	0	0	0	584	0	0	0

Contd.....

APPENDIX A. contd...

EXPORTS OF COMMODITIES FROM PAKISTAN
(VALUE IN THOUSAND RUPEES)

FSTC CODE		1969.70	1970.71	1971.72	1972.73	1973.74	1974.75	1975.76	1976.77
072	Cocoa	0	0	0	0	0	0	0	0
073	Chocolate & choc.prep.	11	0	277	52	26	0	0	0
074	Tea and mate.	3	0	0	0	108	34	948	2350
075	Spices.	6312	9947	16630	32043	23618	25077	100903	111393
081	Feed-stuff for animals.	17073	13218	13216	148081	163378	37333	41093	112348
091	Margarine & shortenings.	0	0	0	0	73	0	0	291
099	Food preparations n.e.s.	1083	5812	4537	10292	2449	6463	9865	24578
111	Non-alcoholic beverages.	1302	665	1233	397	796	1163	1309	1410
112	Alcoholic beverages.	36	17	8	27	2771	21	63	302
121	Tobacco, unmanufactured.	14813	11898	21687	44976	101101	81607	99336	81917
122	Tobacco, manufactured.	1684	2480	3627	4114	6124	30745	60638	81721
211	Hides & skins (except furskins) undressed.	17611	16629	19727	16493	21853	23800	28610	1948
212	Furskins,undressed	34	46	20	403	1692	22336	1791	334
221	Oilseeds, oil nuts and oil kernels.	3101	6308	17990	63218	33197	35605	54828	66043
231	Crude rubber (including synthetic)	0	1	0	0	19	351	153	135
241	Fuel wood & charcoal.	3	0	6	192	0	1322	0	0
242	Wood (rolled or roughly squared)	53	44	0	1050	0	1	0	2067
243	Wood shaped or simply sqaured worked.	150	95	3	4	0	16	19	0
244	Cork, raw and waste.	2	1	1	0	0	0	1	82
251	Pulp or waste paper.	0	0	0	0	0	0	0	0
261	Silk	0	0	0	0	0	0	898	1057
262	Wool & other animal hair.	32572	24201	24603	83431	79739	27573	73908	88304
263	Cotton	223744	285297	983461	1199693	413252	1566176	993123	316143
264	Jute.	28	25	49	0	114	0	82	405
265	Vegetable fibres, except cotton and jute.	0	0	25	34	0	105	101	248
266	Synthetic fibres.	0	0	0	85	3986	456	1260	1416
267	Waste materials from textile fabrics, incl. rags.	5048	4834	5890	20009	33354	31091	40718	38268
271	Fertilizers crude.	8367	9445	14629	22609	46674	60352	18089	27333

Contd.....

APPENDIX A. Contd...

EXPORTS OF COMMODITIES FROM PAKISTAN
(VALUE IN THOUSAND RUPEES)

PSTC CODE		1969.70	1970.71	1971.72	1972.73	1973.74	1974.75	1975.76	1976.77
276	Other crude minerals.	7712	7133	7274	17191	6717	4764	11376	24935
281	Iron ore & concentrates.	0	0	0	0	6	0	166	571
282	Iron & steel scrap.	1	0	0	1	380	10	0	646
283	Ores & concentrates of non-ferrous metals.	7687	3536	5879	9408	0	9623	11343	13663
284	Non-ferrous metal scrap.	0	37	0	0	0	0	0	90
285	Silver & Platinum ores.	0	0	0	0	0	0	0	0
291	Crude animal materials inedible n.e.s.	18171	10678	11999	28678	39155	27913	40771	42561
292	Crude vegetable materials inedible n.e.s.	27490	42088	42371	107055	186533	188859	205600	194672
321	Coal, coke & briquettes.	230	259	199	166	0	201	4	0
331	Petroleum crude and partly refined.	8677	8326	4401	20179	70633	49205	85394	171171
332	Petroleum products.	37820	30296	36937	108602	104991	193	106595	97323
341	Gas natural and manufactured.	0	0	0	3	40	0	144	168
411	Animal and veg. oils & fats.	0	24	0	6	19	0	0	1539
421	Fixed vegetable oils, soft.	200	76	138	498	349	513	308	2158
431	Oil & fats process & waxes of animal and veg. origin.	1	0	0	6	3	0	0	85
512	Organic chemicals	1818	1442	1786	3031	10316	18635	35273	29739
513	Inorganic chemicals	584	421	538	3750	40342	24791	9191	9859
521	Mineral tar & crude chemicals from coal, petrol & nat.gas.	0	0	0	4	0	1192	0	0
531	Synthetic organic dye-stuffs	0	62	152	573	698	0	3398	2544
532	Dyeing & tanning extracts.	14	0	1	0	19	0	52	48
533	Pigments, paints, varnishes and related materials.	5927	3763	4554	4713	6038	6929	8184	9747
541	Medicinal & pharmaceutical products.	8141	6182	4912	12403	13773	18649	24277	8678
551	Essential oils, perfume and other flavour materials.	1159	1533	499	636	671	416	630	1195
553	Perfumery and cosmetics.	978	958	1341	3324	4513	4660	7614	6441
554	Soaps, cleansing and polishing preparations.	6714	2970	4412	2639	10244	20452	12850	10054
561	Fertilizers, manufactured.	0	0	8936	3832	643	3643	0	0
581	Plastic materials.	31	0	0	6	374	114	27	25
599	Misc. chemical materials and products.	3647	3859	3613	656	19238	23636	40023	65645

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APPENDIX A. Contd...

EXPORTS OF COMMODITIES FROM PAKISTAN
(VALUE IN THOUSAND RUPEES)

PSTC CODE		1969.70	1970.71	1971.72	1972.73	1973.74	1974.75	1975.76	1976.77
611	Leather.	109263	107029	173460	344867	416478	367348	373666	647383
612	Manufrs. of leather & artificial/reconst.leather nes	3349	4316	5221	13512	11341	10167	8186	6838
613	Furs, dressed and/or dyed.	0	0	0	0	2654	0	396	979
621	Materials of rubber.	678	485	725	1613	2703	6124	7279	4867
629	Articles of rubber n.e.s.	3370	2726	1439	1693	4171	3340	8788	9782
631	Veneers, plywood & other wood, n.e.s.	28	94	16	7	43	218	291	68
632	Wood manufactures. n.e.s.	270	131	157	1176	2818	1816	3787	2376
633	Cork mfrs.	1	26	28	59	33	128	17	71
641	Paper & paper board	998	781	2081	1651	1751	597	5034	6639
642	Articles of paper, pulp or board.	239	381	632	699	3368	2350	4210	5853
651	Textile yarn and thread.	255152	357495	606275	1777724	1869775	712031	1465337	1219731
652	Cotton fabrics (std. type woven)	257624	311273	387110	1247082	1416828	1312533	1359446	1603325
653	Textile fabrics (std. type) woven.	28721	29006	23732	68624	74766	27996	35914	38448
654	Tulle, lace, embroidery etc.	2090	1235	1142	5644	6092	7843	6695	6806
655	Special textile fabrics & related products.	2572	1984	1730	5112	5869	10402	11447	9655
656	Articles of textile mats. n.e.s.(Not clothing/footwear)	40386	62615	67919	469761	411525	540345	598999	542849
657	Floor coverings,tapestries.	56783	66690	109814	282349	339308	521848	776122	980297
661	Lime, cement & fabricated building material.	19438	21888	44558	102013	201555	292676	77441	33457
662	Clay construction mats.	53	583	413	127	363	366	1619	1515
663	Mineral mfrs. n.e.s.	285	153	182	205	1559	413	694	684
664	Glass.	157	54	96	41	915	838	684	760
665	Glass-ware.	225	113	256	932	3009	6568	4506	4097
666	Pottery.	10	2	16	7860	6822	5800	319	984
667	Precious & semi-precious stones & pearls.	2258	779	1507	0	1	0	2638	2107
673	Iron and steel.	124	68	75	450	13976	4912	723	1533
681	Steel & platinum group metals.	0	250	396	0	17	0	0	0
682	Copper.	53	27	122	69	2265	2	0	0
683	Nickel.	0	0	0	0	23	0	0	0

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APPENDIX A. Contd....

EXPORTS OF COMMODITIES FROM PAKISTAN
(VALUE IN THOUSAND RUPEES)

PSTC CODE		1969.70	1970.71	1971.72	1972.73	1973.74	1974.75	1975.76	1976.77
684	Aluminium.	0	9	7	0	88	51	0	30
685	Lead.	0	0	6	0	0	108	0	92
686	Zinc.	25	0	0	7	16	0	0	123
687	Tin.	0	0	1	0	0	0	21	0
689	Misc. non-ferrous base metals.	0	0	0	0	0	0	0	0
691	Finished structural parts and structures.	334	6	24	498	5767	3366	2117	1444
692	Metal containers for storage & transport.	59	63	262	974	384	2	613	146
693	Wire products and fencing grills.	20	20	28	275	1258	2146	90	233
694	Nails, screws, nuts and bolts.	544	309	276	568	943	730	1282	2291
695	Tools for use in hand or in machines.	154	155	126	543	842	1194	1241	2466
696	Cutlery	3154	4391	1923	13557	17639	22935	17951	18231
697	Household equipment of base metals	1437	1805	1588	4449	10150	14106	15572	19856
698	Manufactures of metals, n.e.s.	554	1002	733	823	4790	7455	9007	10436
711	Power generating (non-electric) machinery)	1286	1011	2395	3552	5138	2649	9218	3648
712	Agrl. machinery or implements.	94	7	85	431	123	7952	210	433
714	Office machinery.	0	5	2	0	40	78	1001	119
715	Metal working machinery.	226	444	128	876	1135	2596	4701	3681
717	Textile & leather machinery.	3302	3482	1856	3754	7584	4826	4632	5270
718	Machines for special inds.	105	428	739	482	266	1981	21010	2060
719	Machinery & appliance and parts n.e.	1533	1892	2123	3069	3330	11603	16112	13912
722	Electric machinery and switchgear.	816	1853	2189	4736	6748	13118	7273	4030
723	Equipment for dist. of electricity.	775	1131	381	1368	2308	1064	1610	650
724	Telecommunication apparatus.	1888	1365	1371	4014	65792	3822	4106	2397
725	Domestic electrical equipment.	232	294	352	1396	2185	609	2932	51
726	Elect. equipment for medical purposes.	0	0	0	5	17	2	74	0
729	Elect. machinery and apparatus n.e.	1056	3551	1567	724	2776	5462	6478	4883
731	Railway vehicles.	0	0	0	0	8	0	0	22
732	Road motor vehicles.	530	880	693	621	1051	443	751	990

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APPENDIX A. Contd... EXPORTS OF COMMODITIES FROM PAKISTAN (VALUE IN THOUSAND RUPEES)

SITC CODE		1969.70	1970.71	1971.72	1972.73	1973.74	1974.75	1975.76	1976.77
733	Road vehicles other than motor vehicles.	130	122	114	161	456	150	117	156
734	Aircraft.	225	29	45	1	231	0	0	3187
735	Ships and boats.	808	554	329	1026	12342	2976	41747	3314
812	Sanitary and plumbing, heating & lighting fixtures etc.	1044	1031	1424	3729	3126	2732	2210	1726
821	Furniture and fixtures.	318	353	735	2307	3260	4078	4212	2633
831	Travel goods, handbags etc.	657	376	1419	1629	2670	9746	3479	1685
841	Clothing (except fur)	22242	31022	47240	135372	251309	292835	366401	303636
842	Fur clothing (excl. hats, caps or gloves)	13	8	2	0	11	0	64	0
851	Footwear.	23417	29367	38941	83620	94522	125473	66038	89342
861	Scientific measuring & controlling instruments etc.	16576	20342	25054	47889	89245	132659	135250	140779
862	Photographic & cinematographic supplies.	52	8	33	11	5	0	227	106
863	Developed cinematographic films.	829	606	1466	3088	4273	3528	3776	5135
864	Watches & clocks.	8	20	0	278	0	0	155	0
891	Musicial instruments, sound recorders, etc.	1135	1133	1597	3585	4760	5775	7463	11713
892	Printed matter.	2162	2359	2092	3746	5588	12554	14507	23297
893	Artificial platic materials, etc.	443	102	187	702	1708	403	1385	3558
894	Toys, games & sporting goods.	30372	33274	30657	137938	190947	207088	178670	223831
895	Office & stationery supplies. n.s.	588	1039	835	2484	4680	4175	3375	3316
896	Works of art & antiques.	95	4	0	1	17	1	1	0
897	Jewellery, gold and silversmiths wares.	176	131	184	636	1041	1321	3771	1205
899	Manufactured articles n.e.s.	22949	36865	43216	122149	156714	124961	12886	124766
911	Postal packages, not classified according to kind.	2894	1711	3657	8469	11768	13122	13572	11007
931	Returned goods & special transactions	251	342	613	536	107269	50282	54623	57772
941	Live animals not for food (Zoo animals).	409	500	823	1075	914	1100	784	1237

SOURCE: Compiled from "FOREIGN TRADE STATISTICS OF PAKISTAN" Various issues.

APPENDIX B.

APPENDIX B.

LIST OF ITEMS WITH BONUS RATES ADMISSIBLE UNDER THE EXPORT BONUS SCHEME

(Up to June 12th, 1964)

Description of Goods	Bonus Percentage Admissible	Description of Goods	Bonus Percentage Admissible
Group I - AGRICULTURAL AND FOREST PRODUCTS.			
Agar atar	40	Honey	20
Agarwood	20	Kapok, raw	20
Agar or Agarwood Dust	20	Kapok, ginned	40
Asafoetida (Hing)	20	Loban	20
Bamboos	20	Maize starch & gluten	40
Bamboo Sticks	20	Miswak (tooth stick of Jal tree)	20
Bees-wax	20	Molasses	20
Betel-leaf (Pan)	20	Oilcakes (castorseed, cottonseed, rapeseed, all sorts, n.o.s.)	20
Betelnuts	20	Palmyra fibre	20
Betelnut fibre & shell	20	Plants	20
Bran, rice	20	Pulses	20
Bran, wheat	20	Rapeseed	20
Cane & rattan, incl cane peel.	20	Resin	20
Charcoal	20	Rosin	40
Dundasa (walnut back)	20	Sealing wax.	40
Dhoop (Indian olibanum)	20	Seeds.	20
Furra leaves.	20	Sann hemp	20
Golpatta	20	Shoddy	20
Grass stalks	20	Sital Patti	20
Groundnuts, (shelled and unshelled)	20	Squills	20
Guar gum, crude	20	Tamarind	20
Guar gum, finished	40	Teasel heads	20
Guar meal	20	Turpentine	40
Guar protein extracts	20	Turpentine, vegetable	40
Guar protein extracts hyprofeed.	40	Vegetables (chillies, ginger, dry Tumeric)	20
Guar splits	20	Wood & Timber	20
Hena leaves	20		
Hena powder	20		
Herbs & crude drugs	20		

Description of Goods	Bonus Percentage Admissible	Description of Goods	Bonus Percentage Admissible
Group II - ANIMALS, ANIMAL PRODUCTS & LEATHER MANUFACTURES.			
Animals (Elephants, Goats, Horses, Monkeys Pigs & Tortoise.	20	Chamois leather	40
Animal bladders	20	Leather footwear	40
Animal blood - dehydrated.	20	Leather goods other than footwear.	40
Bees-wax -		Poultry and eggs.	20
(i) cleaned & packed	40	Reptile skins -	
(ii) other than (i)	20	i) Aligator	20
Bile of cow (oxgall)	20	ii) Crocodile	20
Bones crushed	20	iii) Lizard	20
Bone dust	20	iv) Python & snake -	20
Bone Grist	20	a) tanned	40
Bone Meal	20	b) raw, incl.dry & wet-salted.	20
Bone sinews	20	Skins - Karakuli, leopard, otter and tiger.	20
Casein	20	Tanned leather & Skins - Chrome, vegetable or bark-tanned incl. chrome tanned in blue.	40
Casings - Beef, sausage Dried & sheep.	20	Vellum drum heads.	40
Feathers (domestic birds)	20		
Furs, incl.raw & tanned.	20		
Fur Skin manfrs. incl. gloves & caps.	40		
Gelatine	40		
Guts & scrates, unmnftd.	20		
Hair, Animal, raw.	20		
Hair, Human	20		
Hair, Cow tail.	20		
Honey-			
(i) refined & packed	40		
(ii) other than in (i)	20		
Horns & hoofs, crushed, uncrushed inc.shavings.	20		
Horn & Hoof Meal steamed and unsteamed.	20		
Leather-board.	40		

Description of Goods	Bonus Percentage Admissible	Description of Goods	Bonus Percentage Admissible
Group III - MINERALS.			
Antimony	20	Lime stone.	20
Antimony Troxide	40	Magnesite	20
Aragonite & Marble (incl. dressed, and their chips & powder)	20	Magnesium Silicate (soapstone)	20
Aragonite-cut, dressed crust-removed, polished & finished in blocks.	40	Manganese ore.	20
Barytes & Barytes Powder	20	Marble-cut, dressed, crust-removed, polished & finished in blocks.	40
Bauxite Lump	20	Mica.	20
Bentonite	20	Mica - articles made mainly or wholly of -	40
Beryl stone	20	Ochres.	20
Caolin clay	20	Papadkhar, sijjikhar & Choakhar	20
Carborandum stone	20	Slab of aragonite & Marble-cut, dressed, crust-removed, finished & polished.	40
Celestite-ore, powder, pulverised (snow-white)	20	Red Oxide or Iron	20
Cement	40	Rock Salt	20
Chrome ore, all types	40	Saltpetre	20
Coal	20	Silica	20
Coke	20	Plaster of Paris	40
Earth & Clay (other than china clay)	20	Stones (other than precious stones)	20
Felspar	20	Stones, precious (rough)	20
Fluorspar	20	Stones, Precious (cut and polished).	40
Fluorite	20	Sulphur, refined	40
French chalk	20	Vermiculite	20
Fullers Earth	20	Whiting.	20
Green onyx	20		
Gypsum	20		
Hartal or Orpiment Yellow	20		
Lead Black or coloured for pencils	40		
Lead ore.	20		

Description of Goods	Bonus Percentage Admissible	Description of Goods	Bonus Percentage Admissible
Group IV - MARINE PRODUCTS.			
Fish, canned(inc.frozen)	40	Prawns & shrimps, Canned (incl frozen	40
Fish,dried (inc.salted)	20	Prawn bran	20
Fish,fresh	20	Prawn, dry (incl.salted)	20
Fish,Leaf - Maws and cakes.	20	Prawn dust	20
Fish Maws	20	Prawn meal	20
Fish Meal	40	Prawn shell	20
Fish, Puti Sidal	20	Sea Pebbles	20
Fish, Salted Hilsha	20	Sea salt	40
Frogs & snakes (frozen)	40	Shark Fins	20
Lobsters or lobsters tails (frozen.	40	Shark - fin tails.	20
Mother of Pearl shells.	20	Tortoise, dead.	20
Pearls, Pakistani (Oyster pearls)	20		
Group V - TEXTILES.			
COTTON -			
Cloth (Mill-made)	30	Mosquito-nets (ordinary as well as produced in woven form.	30
Cotton blankets	30	Nets & doras for birds.	20
Cotton Wool absorbant	20	Niwar	30
Durries,carpets & rugs used for floor covers.	20	Pillows	20
Filter press cloth	20	Rope, cords, & strings incl. fishing ropes.	20
Fishing nets	20	Sugar bags.	20
Handloom cloth incl. curtain cloth, and upholstery.	30	Surgical bandages, gauzes and lint.	20
Handloom goods, such as bedcovers, pillow-covers, table cloth, table linen, dusters, patties, etc.	30	Towels, all types (handloom or mill-made)	30
Hosiery cloth, or knitted fabrics.	20	Yarn (mill-made).	10
Lace, braid & tape.n.o.s.	30	*JUTE,HEMP & SIMILAR FIBRES.*	
Lantern wicks	20	Carpets, Jute pile, Wilton type.	20
Matresses.	20	Coir fibre, mats, mat-tings, ropes, strings, yarn.	20

Description of Goods	Bonus Percentage Admissible	Description of Goods	Bonus Percentage Admissible
JUTE, ETC. CONTD...			
Gunny Bags.	20	Jute ropes, twine, yarn, thread & strings all sorts.	20
Hessian Cloth	20	Manfctrs of Mesta, Rosella & hemp incl. Hemp fishing nets.	20
Jute carpets	20	Moonj strings.	20
Jute Mats (chataiyan)	20		
Jute Matting (water-proofed)	40		
WOOLLEN AND WORSTED.			
Afghan carpets (Pakistan origin)	40	Woollen buckram cloth	40
Blankets	40	Woollen carded web	20
Carpets & rugs (incl. handloom carpets)	40	Shawls, embroidered	40
Carpets, wool pile, Wilton type.	40	Woollen doublings	20
Carpet Yarn n.o.s.	20	Woollen durries	40
Milton cloth	40	Woollen fabrics,n.o.s.	40
Namda.	40	Woollen overcoating	40
Pashmina cloth	40	Woollen patties	40
Serges	40	Woollen Roomals	40
Shawls, unemboidered	40	Woollen shawls	40
Tweeds	40	Worsted fabrics	40
Velours	40	Worsted yarn incl. knitting wools.	40
		Woollen yarn, twistless.	20
SILK & ARTSILK -			
Artsilk braids.	40	Handloom cloth of silk or art silk	40
Art silk fabrics mill-made.	40	Silk carpets.	40
Art silk fringes	40	Silk ribbons of 3" or less width.	40
Art silk laces	40	Silken scarves.	40
Benares Silk sarees	40	Ties and Bows.	40
Gas mantles	40		

Description of Goods	Bonus Percentage Admissible	Description of Goods	Bonus Percentage Admissible
SYNTHETIC CHEMICAL MIXED -			
Fishing nets manufctd. from imported Nylon parachute cord.	20	Mixed fabrics (containing rayon & cotton) -	
Handloom cloth or art. silk/silk & cotton mixed -		i) with 60% or more of rayon.	40
i) with 60% or more artsilk/silk.	40	ii) with 60% or more of cotton.	20
ii) with 60% or more cotton.	20	iii) with 50% cotton.	20
		Rayon Fabrics.	40
MANUFACTURES OF CLOTH & YARN -			
Arab roomals made of indigenous cloth (Handloom or mill-made)	20	Woollen coats, frocks & other apparel of the category.	40
Arab roomals, emboidered.	40	Rucksack with supporting straps.	40
Cotton Jerseys	40	WEB equipment pattern 44.	40
Cotton & Woolen 'Chughas'	40	*MISCELLANEOUS*.	
Handkerchiefs.	20	Canvas Cloth Ordinary - Grey - unbleached.	20
Hosiery, the following:		Canvas Cloth treated with chemicals & turned into waterproof.	40
(i) Artsilk hosiery.	40	Leather cloth incl. artificial leather cloth.	40
(ii) Cotton Hosiery.	40	Canvas & Leather (incl. art. leather) cloth manufactures.	40
iii) Woollen & worsted hosiery incl.gloves, mittens, Balaclava caps, beret caps, jerseys, socks, stockings.	40	Rain covers (tarpaulins)	40
Manufctrs. of handloom cloth of cotton silk or artsilk.	40	Tents & shamianas made of indigenous materials.	40
Namda articles.	40	Thread, Embroidery.	40
Pashmina cloth mfrs with or without silk and/or cotton embroidery work.	40	Thread, Sewing.	40
Map-cases of cloth	20		
Ready-made garments-			
i) Artsilk & silk.	40		
ii) Cotton	40		
iii) Nylon	40		
iv) Woollen & worsted.	40		

Description of Goods	Bonus Percentage Admissible	Description of Goods	Bonus Percentage Admissible
Group VI - BEVERAGES, FRUITS, TOBACCO, VEGETABLES AND THEIR PRODUCTS.			
Achaars	40	Potatoes.	35
Chutnies	40	Provisions, tinned and canned.	40
Curry Powder	40	Pickles	40
Beer, bottled or others	40	Sauces	40
Bidis	40	Spaghetti	40
Biscuits	40	Spice papad	40
Cigarettes	40	Sweets, Pakistani	40
Cigars	40	Tobacco, all varieties.	30
Cigar wrapper leaf	20	Vegetables, canned or preserved.	40
Condiments excl. coriander & cummin seeds.	20	Vegetable, Fresh (excl. garlic, ginger, potatoes, onions)	20
Confectionery	40	Vermicelli (raw or baked)	40
Confectionery products (siwayyan)	40	Vermicelli, Burnt.	20
Drinks, non-alcoholic.n.o.s	40	Vinegar.	40
Fruits, canned or preserved	40		
Fruit cordials, juices and squashes.	40		
Fruits, dried.	20		
Fruits, fresh (all types)	35		
Jaggery Powder.	20		
Jaggery Raskat.	20		
Macaroni	40		
Morabbas	40		
Group VII - CHEMICAL & PHARMACEUTICAL PRODUCTS OR COMPOUNDS.			
Aluminium sulphate		Denatured spirit.	40
Benzoin.	40	Distemper (powder as well as oil-bound)	40
Boot Polish	40	Drugs & medicines, indigenous, manfctd n.o.s.	40
Calcium carbonate, precipitate.	20	Ephedrine Pseudo.	40
Car polishes, cleaners, etc	40	Ephedrine hydrochloride in crude, crystal and extract form.	40
Chalk, French	20	Ferrous sulphate	40
Chrome pigment	40		
Cosmetics other than hair oils.	40		

Description of Goods	Bonus Percentage Admissible	Description of Goods	Bonus Percentage Admissible
Gas, Oxygen.	40	Printing link.	40
Glycerine, refined & chemically purified.	40	Santonin	40
		Soap, toilet	40
Glycerine, Soap Lye crude.	20	Soap, washing	40
Kathha (catechu)	40	Sulphuric Acid	40
Magnesium sulphate	40	Toilet requisites other than soap, nuts &	
Oils.	40	washing powder.	40
Paints & varnishes	40	Tooth paste.	40
Perfumery	40	Tooth Powder.	40
Phenyle & other disin-fectants.	40	Whiting.	20
Potash alum.	40		
Group VIII - MACHINERY, MILLWORK & GOODS PRINCIPALLY MADE OF METALS.			
Agricultural implements.	40	Electric fans (all sorts)	40
Air gun slugs.	40	Flushing cisterns & sanitary fittings (cast iron)	40
Aluminium wares other than utensils.	40	Hardware, builders,nos.	40
Baling hoops (Pakistan origin)	40	Hardware, domestic, (all sorts)	40
Barbed wire.	40	Hardware fittings.	40
Brass bolts.	40	Hooks, collar.	40
Buckles	40	Hooks & eyes for pants.	40
Button moulds	40	Hospital equipment.	40
Cattle bells	40	Hurricane lanterns.	40
Chaff-cutters	40	Iron & Steel castings - General - up to 2½ tons	
Clips for electric wiring	40	in weight per unit.	40
Clips, Motor battery.	40	Iron wares, all sorts incl. pans & kettles.	40
Clips, Suitcase	40	Iron hook bolts with nuts and washers.	40
Conduit pipes.	40	Machinery & parts & accessories thereof.	40
Crown corks	40	Telegraph & Telephone stores & equipment.	40
Cutlery.	40	Machine tools incl. hand tools.	40
Expanded metal	40		
Cycles	40		
Cycle accessories/parts	40		
Door & window fittings.	40		
Drums (40/45 gallons)	40		

Description of Goods	Bonus Percentage Admissible	Description of Goods	Bonus Percentage Admissible
Motors	40	Steel almirahs, cabinets and safes.	40
Motor horns complete.	40	Steel buckets, despatch boxes, trunks.	40
Mouse traps	40	Steel doors & windows.	40
Nails, wire, iron	40	Steel furniture, n.o.s	40
Piston & Piston rings	40	Suitcase handles.	40
Power presses and hand presses, small.	40	Surgical & veterinary instruments.	40
Precision & measuring tools and instruments.	40	Switchgear.	40
Printing types.	40	Tin caps, cans & containers.	40
Pulleys, all types	40	Tools & Gauges.	40
Pumps, centrifugal & deepwell turbine.	40	Transformers	40
Pumps for motor cars.	40	Utensils, aluminium.	40
Razor blades	40	Utensils, brass and copper.	40
Rifles, shotguns & small arms for sports.	40	Watch straps (of steel chromium or gilt)	40
Rings, Button.	40	Water & steam fittings.	40
Rings, Key.	40	Wire netting.	40
Safety pins.	40		
Scissors, all sorts.	40		
Springs for motor cushions and sofas.	40		
Group IX - HANDICRAFTS AND SMALL INDUSTRIES PRODUCTS.			
Badges, Regalia & other distinctive marks and indications incl. numbers.	40	Caps made of cloth	40
Bracelets (aluminium)	40	Caps made of Karakuli skin & plush, kullahs & embroidered caps.	40
Brass-inlaid wooden articles.	40	Conch shell products	40
Brass & copper wares, all sorts.	40	Dolls, costume.	40
Brassware, chased (Moradabadi wares)	40	Electroplated or EPNS articles.	40
Bone articles.	40	Embroidered goods, all sorts.	40
Brooms & broomsticks.	20	Filigree.	40
Camel skin articles.	40	Gold & Silver leaf.	40
		Gold & Silver Thread, immitation (Immit.Zari)	40

Description of Goods	Bonus Percentage Admissible	Description of Goods	Bonus Percentage Admissible
Gold & Silver Thread (real Zari)	40	Charkhas (spinning wheels)	40
Handbags for ladies.	40	Cigarette cases.	40
Handbags, all sorts, n.o.s.	40	Clips	40
Hand-fans, all sorts	40	Fan Handles	20
Hats.	40	Flower pots & vases.	40
Horn & Hoof Manuftrs, incl. buttons & combs.	40	Hair combs.	40
Immitation Jewellery.	40	Inkpot stands	20
Ivory goods.	40	Kashmir artware.	40
Ivory-inlaid Wooden articles.	40	Lamp stands	40
Locks & Padlocks	40	Looking-mirror stands.	40
Marble Articles.	40	Picture frames	40
Mats (chataliyan) made of bamboo, palm, or date-palm leaves, etc. (other than Jute mats)	20	Plates	40
Jewellery boxes (wooden/ card-board)	40	Powder boxes.	40
Mazri products.	20	Sandals (Kharaon)	40
Military & police equipment.	40	Shoe lasts & wooden heels	20
Novelties & curios other than those containing silver, gold or other precious metals.	40	Snuff boxes.	40
Paintings, all sorts.	40	Umbrella sticks, wooden with or without clips.	20
Paper Mache articles.	40	Walking sticks.	20
Silver Articles	40	Woven Name-labels (cotton)	40
Straw mats	20		
Wax-work (cloth with wax-work decorations)	40		
Wooden Articles -			
Ash trays	40		
Beads.	40		
Candle stands.	40		

Description of Goods	Bonus Percentage Admissible	Description of Goods	Bonus Percentage Admissible
Group X - MISCELLANEOUS PRODUCTS.			
Asbestos & Asbestos manufactures.	40	Paper & board and their products.	40
Agarbatti.	40	Postage stamps, Pakistani, used/unused.	20
Brushes, all sorts.	40	Plastic manufactures.	40
Buttons, all sorts incl. horn buttons & mother-of-pearl.	40	Plastic watch straps.	40
		Pottery & earthenware.	40
Canvas & rubber footwear.	40	Reed Board.	40
Celluloid manftrs.n.o.s	40	Rubber manufactures.	40
Dry battery cells.	40	Ships & vessels built in Pakistan.	40
Electric lamps, both service & low voltage.	40	Snuff.	40
Electrical accessories & fittings.	40	Spectacle frames other than those mainly of silver, gold or other precious metals.	40
Electrodes, Arc.	40		
Films, exposed cinematographic whether exported on outright sale or rental basis, or exported through agency arrangements.	40	Sports goods, all sorts, excl. hockey blades.	40
		Bags - Cricket, Golf.	40
		Balls, all srots.	40
		Baseball bats.	40
Furniture & other mfrs of cane and ratten.	40	Bladders.	40
Furniture wooden.	40	Boards - all sorts.	40
Glass bangles, beads and mina	40	Carom-men and Striker cases.	40
Glass hollow-ware.	40	E.P.N.S.sports goods, all sorts.	40
Glass mirror	40	Fishing lines.	40
Glass sheet	40	Gloves, all sorts,used in sports.	40
Glassware, all sorts.	40	Golf mitts.	40
Gramophone records	40	Golf head covers.	40
Holdalls & Wallets.	40	Grips, all sorts for - Tennis,badminton,squash, hockey,cricket & polo, made of -	
Matches	40		
Mats, n.o.s.	20		
Matts, Furra.	20		
Musical instruments and equipment.	40	(i) Leather,sheepskin or rubber.	40
Muskpod.	20	(ii) towel & tape.	20

Description of Goods	Bonus Percentage Admissible
Gun covers.	40
Guts & strings all sorts used in sports goods.	40
Gymnastic requisites all sorts incl. horizontal & parallel bars chiefly made of wood.	40
Ice Hockey accessories.	40
Indoor games requisites all sorts.	40
Inflaters required for sports purposes	40
Lacing awls.	40
Lace pusher & puller.	40
Lace used in sports goods.	20
Net required in sports.	40
Nylon monofilament, all sorts.	40
Pads.	40
Ping-pong bats, poles and sets.	40
Polo requisites -	
Polo handles.	40
Polo heads.	40
Polo helmets.	40
Polo saddles.	40
Playing cards, all sorts	40
Presses.	40
Punching gloves.	40
Rackets all sorts reqrd. for sports purposes.	40
Rackets and frames - tennis, badminton, squash	40
Ski gloves	40
Ski leather bags.	40
Skipping ropes.	40
Sports cups.	40
Sports Medals & Shields.	40
Sports wear (incl. caps jerseys, hoses & stockings.	40
Sticks - Golf, Hockey, Polo.	40
Shuttle cocks.	40
Tables all sorts reqrd. for sports purposes.	40
Tennikoit rings.	40
Tennis net stretchers.	40
Tennis sheep guts.	40
Whistles.	40
Stationery articles, all sorts (other than silver, gold or other precious metals.	40
Tiles, cement & Mosaic.	40
Toys, all sorts - Celluloid, Plastic, rubber & wodden.	40
Tongas	40
Umbrellas	40
Wax candles.	40
Waste products, -	20
Artsilk yarn waste.	
Battery waste.	
Cotton linters & yellow pickings.	
Cotton seed hull fibre.	
Cotton seed hull shaving fibre.	
Cotton pads.	
Cotton waste hard - Cuts, Oily, Piecer clean or dirty, etc.	
Cotton waste, soft - Bondas, card fly, comber fly, cylinder fly, droppings etc.	
Cotton wicks caulking.	
Cotton-Yarn waste.	
Fishing nets used (old)	

Description of Goods	Bonus Percentage Admissible	Description of Goods	Bonus Percentage Admissible
Hide & skins, fleshings cuttings & trimmings, chrome shavings, picker waste dry pieces in hair.		Wooden and plywood manufactures, the following:	
Iron & steel scrap		Blackboards	40
Jute-bag cuttings.		Doors and windows	40
Jute waste, all types.		Plywood sheets, laminated.	40
Leather cut-pieces.		Plywood manufactures, others.	40
Milk waste (in solid form)		Tent-poles	20
Paper waste.			
Raw silk waste (unprocessed).			
Tea waste.			
Tin-plate clippings.			
Waste clippings, cuttings or rags of hosiery or cloth other than woollen and worsted.			
Optical Anti-glare lenses.	40		
Sunglasses.	40		
Woollen & worsted rags.	20		
Wheels, grinding.	20		
Wheels, Persian.	40		
Wooden battery separators.	40		

Note:- Rates shown in the Appendix were amended with effect from June 12, 1964. All rates at 20 per cent or less were made 20 per cent. All other rates were made 30 per cent.

SOURCE: Government of Pakistan, Office of the C.C.I & E., "Manual of Imports and Exports Control", Rawalpindi, 1964, Appendix 17, pp.313 - 343.

APPENDIX C.

APPENDIX C

(i) LIST OF INDUSTRIES WITH 100 PER CENT OF F.O.B. VALUE OF EXPORTS ADDITIONAL LICENSING UNDER THE EXPORT PERFORMANCE LICENSING SCHEME.

(In the January - June 1962 Import Policy)

Absorbent cotton	Boot polish.
Brass Water fitting	Biscuits and confectionery
Cosmetics	Cutlery.
Centrifugal pumps	Diesel Engines
Electric fans	Fountain pens.
Fruit and fish canning and preservation.	Hosiery (yarn restricted) including Handkerchief manufacturing.
Leather goods (excluding leather and fabrics)	Gramophone records.
Nylon gut and monafilament	Optical
Paints and varnishes	Pencil (paint restricted)
Plywood	Leather footwear (excld. Leather)
Pharmaceutical	Rubber goods
Rubber tyres and tubes.	Rubber footwear
Sheet Glass and glass-ware	Soap (tallow restricted)
Thread spooling (yarn restricted.	Typewriter carbons and ribbons
Tufting (excl. yarn)	Tooth Paste.
Watch straps and Bracelets.	

SOURCE:- Board of Trade Journal, dated 26th January, 1962, p.185.

APPENDIX C.

(ii) LIST OF INDUSTRIES WITH PERCENTAGES OF ADDITIONAL LICENSING UNDER THE EXPORT PERFORMANCE LICENSING SCHEME.

(In the July - December 1964 Import Policy)

Name of Industry	Percentage of additional Licensing against FOB value of exports.	Name of Industry	Percentage of additional Licensing Against FOB value of exports
Absorbent cotton	10%	Domestic sewing machines.	50%
Accumulators and batteries.	50%	Dry cells	50%
Arts and handicrafts	50%	Electric appliances	50%
Artsilk fabrics (incl cotton-cum-synthetic fabrics)	50%	Electric cables and wires	50%
Artificial fabrics	50%	Electric fans	50%
Asbestos cement sheets	40%	Electric lamps and fluorescent tubes	10%
Beer	40%	Electric meters	50%
Biscuits & confectionery.	50%	Electric motors	50%
Bonemeal	10%	Electric switchgears and transformers.	50%
Boot polish	10%	Enamelled ware	10%
Brass water fittings	20%	Fish canned	50%
Brushes	50%	Footwear -	
Caps incl.Karakuli caps	50%	(a) Leather shoes	50%
Carpet	15%	(b) Rubber shoes	25%
Cattle feed.	10%	Fountain-pens	50%
Centrifugal pumps	50%	Fruit canned/bottled	50%
Cereal manufactures	10%	Gas mantles.	50%
Cigars	50%	Clycerine	50%
Cigarettes	50%	Gramophone records.	50%
Collapsible tubes	50%	Grinding wheels	30%
Cosmetics	50%	Guar gum	10%
Cotton waste	10%	Handloom fabrics, all sorts, incl.Banarsi goods.	50%
Cutlery	50%	Hand tools.	30%
Cycles and parts	50%	Hand torches	20%
Dawakhana (Unani medicines)	50%	Hosiery	50%
Diesel engines	50%		

Name of Industry	Percentage of additional Licensing against FOB value of exports	Name of Industry	Percentage of additional Licensing against FOB value of exports
Hospital equipment	10%	Rubber tyres & tubes	25%
Hurricane lanterns	10%	Sheet glass	50%
Kapok	10%	Soap	50%
Lace, braid & tape.	25%	Sports goods	10%
Leather board	25%	Stoves and pressure lamps.	50%
Leather goods other than footwear.	50%	Surgical instruments	20%
Manilla hemp and coir ropes.	50%	Tanned leather	10%
Matches	20%	Thread spooling	50%
Mathematical instruments	25%	Tooth paste	50%
Motion pictures.	50%	Tufting	25%
Musical instruments	10%	Typewriter carbon and ribbons	50%
Novelties and toys	50%	Utensils (Metals)	20%
Nylon gut and monofilament	50%	Watch straps and bracelets.	40%
Optical frames	50%	Waterproofing textiles	25%
Paints	10%	Woollen shawls.	40%
Pencils	50%	Woollen yarn/woollen piecegoods.	50%
Pharmaceuticals	50%	Zari and embroidery.	50%
Plastic goods	50%		
Plywood	25%		
Porcelain earthenware	50%		
Radio sets	50%		
Razor blades	50%		
Readymade garments	50%		
Rubber goods (excl. footwear and tyres and tubes)	20%		

SOURCE:- Government of Pakistan, Office of the CCI & E, "Manual of Import and Exports Control", Rawalpindi, 1964. Appendix 23, pp.358-361.

APPENDIX D.

(i) Weighted Bonus Rates as Percentage of FOB Value of Exports Applicable to Commodities at PSTC 3-digit Level under the Export Bonus Scheme.

APPENDIX D.

(i) Weighted Bonus Rates as Percentage of FOB Value of Exports Applicable to Commodities at PSTC 3-digit level under the Export Bonus Scheme.

YEAR	Raw Cotton (PSTC 263)	Textile Yarn and Thread (PSTC 651)	Cotton Fabrics (PSTC 652)	Synthetic Fabrics (PSTC 653)	Tulle, Lace and Embroidery (PSTC 654)	Special Textile Fabrics (PSTC 655)	Made-up Articles of Textiles (PSTC 656)	Floor Coverings Tapestries, etc. (PSTC 657)
1959-60	-	16.25	20.00	20.80	20.00	20.00	21.60	39.30
60-61	-	6.71	20.00	20.36	20.00	20.00	21.60	39.39
61-62	-	4.75	20.00	21.05	20.00	20.00	24.38	39.20
62-63	-	14.16	21.30	21.25	30.00	20.00	33.60	39.57
63-64	-	16.79	24.64	20.65	30.00	20.00	30.53	34.31
64-65	-	20.66	24.28	21.68	30.00	20.00	27.15	29.73
65-66	-	21.01	24.58	25.45	30.00	20.00	27.07	29.80
66-67	-	21.00	24.89	29.23	30.00	20.00	26.99	29.88
67-68	-	24.86	30.60	35.25	36.00	26.00	32.79	35.82
68-69	-	30.66	34.33	39.32	40.00	30.00	36.07	39.75
69-70	-	30.47	33.98	36.68	40.00	30.00	37.49	39.42
70-71	10.00	34.39	39.19	41.18	45.00	35.00	43.16	44.37
71-72	3.15	26.47	32.02	35.09	38.84	30.21	37.00	38.61

Contd.....

(i) Weighted Bonus Rates as Percentage of FOB Value of Exports Applicable to Commodities at PSTC 3-digit level under the Export Bonus Scheme.

YEAR	Clothing Except fur Clothing (PSTC 841)	Fresh Fish (PSTC 031)	Fish, canned and fish Preparations (PSTC 032)	Rice (PSTC 042)	Non-Alcoholic Beverages (PSTC 111)	Alcoholic Beverages (PSTC 112)	Unmanufactured Tobacco (PSTC 121)	Manufactured Tobacco (PSTC 122)
1959-60	40.00	11.32	40.00	11.16	40.00	40.00	20.00	40.00
60-61	40.00	13.13	40.00	10.84	40.00	40.00	20.00	40.00
61-62	40.00	13.98	40.00	10.84	40.00	40.00	20.00	40.00
62-63	40.00	14.01	40.00	10.84	40.00	40.00	20.00	40.00
63-64	39.48	14.37	40.00	10.84	39.48	39.48	27.08	39.48
64-65	30.00	10.85	30.00	9.79	30.00	30.00	30.00	30.00
65-66	30.00	-	30.00	14.65	30.00	30.00	30.00	30.00
66-67	30.00	-	30.00	19.49	30.00	30.00	30.00	30.00
67-68	35.83	-	35.83	25.16	35.83	35.83	36.65	35.83
68-69	40.00	-	40.00	27.14	40.00	40.00	40.00	40.00
69-70	40.00	-	40.00	29.23	40.00	40.00	40.00	40.00
70-71	44.86	10.00	45.00	33.59	44.86	44.86	44.86	44.86
71-72	38.84	6.58	38.84	30.17	38.84	38.84	38.84	38.84

Contd.....

(i) Weighted Bonus Rates as Percentage of FOB Value of Exports Applicable to Commodities at PSTC 3-digit level under the Export Bonus Scheme.

YEAR	Hides and Skins (PSTC 211)	Leather (PSTC 611)	Manufactures of Leather (PSTC 612)	Footwear (PSTC 851)	Organic Chemicals (PSTC 512)	Paints and Varnishes (PSTC 533)	Medicinal and Pharmaceutical products (PSTC 541)	Perfumery and Cosmetics (PSTC 553)
1959-60	-	40.00	40.00	40.00	40.00	40.00	40.00	40.00
60-61	-	40.00	40.00	40.00	40.00	40.00	40.00	40.00
61-62	-	40.00	40.00	40.00	40.00	40.00	40.00	40.00
62-63	-	40.00	40.00	40.00	40.00	40.00	40.00	40.00
63-64	0.09	39.48	39.48	39.48	39.48	39.48	39.48	39.48
64-65	1.93	30.00	30.00	30.00	30.00	30.00	30.00	30.00
65-66	2.42	30.00	30.00	30.00	30.00	30.00	30.00	30.00
66-67	5.40	30.00	30.00	30.00	30.00	30.00	30.00	30.00
67-68	-	35.83	35.83	35.83	35.83	35.83	35.83	35.83
68-69	-	40.00	40.00	40.00	40.00	40.00	40.00	40.00
69-70	-	40.00	40.00	40.00	40.00	40.00	40.00	40.00
70-71	10.00	44.86	44.86	44.86	44.86	44.86	44.86	44.86
71-72	3.15	38.84	38.84	38.84	38.84	38.84	38.84	38.84

Contd.....

(i) Weighted Bonus Rates as Percentage of FOB Value of Exports Applicable to Commodities at PSTC 3-digit level under the Export Bonus Scheme.

YEAR	Soaps, cleansing and polishing preparations (PSTC 554)	Non-Electric Machinery (PSTC 71)	Electric Machinery (PSTC 72)	
1959-60	40.00	40.00	40.00	
60-61	40.00	40.00	40.00	
61-62	40.00	40.00	40.00	
62-63	40.00	40.00	40.00	
63-64	39.48	39.48	39.48	
64-65	30.00	30.00	30.00	
65-66	30.00	30.00	30.00	
66-67	30.00	30.00	30.00	
67-68	35.83	35.83	35.83	
68-69	40.00	40.00	40.00	
69-70	40.00	40.00	40.00	
70-71	44.86	44.86	44.86	
71-72	38.84	38.84	38.84	

SOURCE: Computed as explained in the text.

APPENDIX D

(ii) Weighted Performance Licensing Rates as Percentage of FOB Value of Exports Applicable to Commodities at PSTC 3-digit Level Under the Export Performance Licensing Scheme.

APPENDIX D

(ii) Weighted Performance Licensing Rates as Percentage of FOB Value of Exports Applicable to Commodities at PSTC 3-digit Level Under the Export Performance Licencing Scheme.

Year	Textile Yarn and thread (PSTC 651)	Cotton Fabrics (PSTC 652)	Synthetic Fabrics (PSTC 653)	Tulle, lace & Emboidery. (PSTC 654)	Special Textile Fabrics (SPTC 655)	Made-up Articles of textiles (SPTC 656)	Floor Covering & Tapestries etc. (PSTC 657)
1961-62	5.94	-	-	-	20.58	9.70	-
62-63	13.37	-	-	-	73.85	23.90	-
63-64	7.01	0.69	1.68	10.47	3.73	19.07	14.96
64-65	3.28	0.28	8.37	11.18	3.26	20.72	14.75
65-66	5.10	1.25	12.69	10.02	4.72	20.85	13.55
66-67	4.98	2.22	16.75	8.82	6.22	18.24	12.36
67-68	3.10	2.04	14.33	3.36	2.15	13.93	14.84
68-69	1.98	2.01	26.17	3.92	3.63	12.80	14.80
69-70	0.72	0.66	8.56	0.37	1.01	8.97	6.19

.....continued.....

(ii) Weighted Performance Licensing Rates as Percentage of FOB Value of Exports Applicable to Commodities at PSTC 3-digit Level Under the Export Performance Licencing Scheme.

Year	Clothing (except fur clothing) (PSTC 841)	Fish, canned and fish preparations (PSTC 032)	Alcoholic Beverages (PSTC112)	Manufactured tobacco (PSTC 122)	Leather (PSTC 611)	Manufactures of leather (PSTC 612)	Footwear (PSTC 851)
1961-62	9.27	50.00	-	-	-	50.00	38.09
62-63	13.90	100.00	-	-	-	100.00	77.77
63-64	50.00	50.00	6.15	10.66	25.00	50.00	27.23
64-65	50.00	50.00	1.33	5.77	25.00	50.00	26.66
65-66	50.00	50.00	2.82	5.66	25.00	50.00	33.77
66-67	50.00	50.00	0.38	0.24	25.00	50.00	40.88
67-68	30.00	30.00	3.03	1.38	20.00	20.00	17.17
68-69	30.00	30.00	0.10	1.54	20.00	20.00	14.90
69-70	15.00	15.00	0.20	0.14	10.00	10.00	5.54

Contd.....

APPENDIX D (contd..)

(ii) Weighted Performance Licensing Rates as Percentage of FOB Value of Exports Applicable to Commodities at PSTC 3-digit Level Under the Export Performance Licencing Scheme.

Year	Organic Chemicals (PSTC 512)	Paints & Varnishes (PSTC 533)	Medicinal and Pharmaceutical Prod. (PSTC541)	Perfumery & Cosmetics (PSTC 553)	Soaps, cleansing & Polishing Preps. (PSTC 554)	Non-Electric machinery (PSTC 71)	Electric Machinery (PSTC 72)
1961-62	-	50.00	50.00	50.00	6.37	1.43	22.50
62-63	-	100.00	100.00	100.00	3.76	3.75	32.57
63-64	10.90	10.00	50.00	50.00	48.04	15.40	34.54
64-65	30.74	10.00	50.00	50.00	46.61	22.17	43.29
65-66	15.62	10.00	50.00	50.00	45.18	10.60	39.43
66-67	0.56	10.00	50.00	50.00	44.13	8.15	33.83
67-68	0.10	10.00	20.00	20.00	18.81	13.64	25.00
68-69	0.17	10.00	20.00	20.00	18.50	21.30	22.60
69-70	0.60	5.00	10.00	10.00	9.30	10.51	5.74

SOURCE: Computed as explained in the text.

APPENDIX D.

(iii) Weighted Export Duty Rates as Percentage of FOB Value of Exports Applicable to Commodities at PSTC 3-digit Level, followed by Weighted Sales Tax (as above).

APPENDIX D

(a)

(iii) Weighted Export Duty Rates as Percentage of FOB Value of Exports Applicable to Commodities at PSTC 3-digit level.

YEAR	Textile Yarn and Thread (PSTC 561)	Cotton Fabrics (PSTC 652)	Rice (PSTC 042)	Hides and skins (PSTC 211)	Leather (PSTC 611)	Manufactures Leather (PSTC 612)	Footwear (PSTC 851)	Fresh Fish (PSTC 031)	Fish, Canned and fish Preparations (PSTC 032)
1972-73	12.56	7.79	14.75	40.00	15.00	15.00	15.00	15.00	15.00
73-74	10.92	4.40	9.88	40.00	15.00	15.00	15.00	15.00	15.00
74-75	3.24	0.45	6.98	40.00	2.50	2.50	2.50	15.00	-
75-76	-	-	11.01	40.00	-	-	-	15.00	-
76-77	-	-	5.86	40.00	-	-	-	-	-

SOURCE:- Computed as explained in the text.

Contd.....

(iii) Weighted Export Duty Rates as Percentage of Percentage of FOB Value of Exports Applicable to Commodities at PSTC 3-digit Level.

YEAR	Raw Cotton (PSTC 263)
1959-60	16.57
60-61	12.78
61-62	11.61
62-63	5.61
63-64	5.20
64-65	2.33
65-66	2.24
66-67	2.47
67-68	1.10
68-69	-
69-70	-
70-71	-
71-72	-
72-73	40.00
73-74	40.00
74-75	35.00
75-76	35.00
76-77	17.50

(iii) Weighted Sales Tax as Percentage of Percentage of FOB Value of Exports Applicable to Commodities at PSTC 3-digit Level.

YEAR	Fresh Fish (PSTC 031)
1959-60	10.00
60-61	12.50
61-62	12.50
62-63	12.50
63-64	12.50
64-65	16.87
65-66	18.75
66-67	18.75
67-68	18.75
68-69	18.75
69-70	18.75
70-71	25.00
71-72	25.00
72-73	28.75
73-74	28.75
74-75	28.75
75-76	28.75
75-76	25.00

SOURCE: Computed as explained in the text.

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